



# Neometals Ltd (ASX:NMT)

## Lithium back on investors' screens

4 May 2018

Mineral Resources (ASX:MIN) recently announced that it has commenced a process to sell up to 49% of its world-class 100%-owned Wodgina Lithium Project as part of an offtake and partnering process. Wodgina, 100km south of Port Hedland in WA's Pilbara region, is the world's largest hard rock lithium deposit with an upgraded (April 2018) Mineral Resource of 233Mt @ 1.21% Li<sub>2</sub>O and a Probable Reserve of 142.4Mt @ 1.19% Li<sub>2</sub>O. The divestment process follows a significant number of unsolicited approaches to MIN from interested parties including lithium processors, battery manufacturers, international trading companies, and automakers expressing interest in securing a direct investment in the project and/or offtake rights.

The move adds to a **flurry of merger and acquisition activity in the domestic lithium sector**. Galaxy Resources (ASX:GXY) is looking to sell a stake in its Sal de Vida Lithium and Potash Brine Project in Argentina, Altura Mining (ASX:AJM) is in discussions with a major Chinese shareholder regarding a potential control transaction, and emerging lithium producer Tawana Resources (ASX:TAW) – owner of the Bald Hill Lithium Project in WA - and Singapore-listed Alliance Mineral Assets (SGX:40F) are in merger negotiations.

Press reports state that analysts are speculating that Wodgina could be worth more than A\$3.6bn based on the updated Resource, the pathway to downstream processing and recent valuations for nearby lithium projects at Pilbara Minerals (ASX:PLS) and Altura Mining. A project value of A\$3.6m implies a Resource value of A\$15/t. Applying this unit value to the Mt Marion Resource (77.8Mt@ 1.37% Li<sub>2</sub>O), we calculate NMT's 13.8% interest in Mt Marion at some A\$165m. This is some 63% above our current valuation of A\$101m (~A\$0.18 per share), and points to the project's upside potential.

In addition, we note that **NMT is making good progress with its WA Lithium Hydroxide Project**, which looks to beneficiate 6% spodumene concentrate - sourced initially from Mt Marion - to higher value lithium hydroxide. On 10 April 2018, NMT announced positive vendor test results, with 99.99% pure lithium hydroxide produced from run-of-mine concentrates using a conventional direct-conversion sulphate process. On 1 May 2018, NMT announced that engineering firm M+W Group were awarded the contract to perform the FEED Study for the Kalgoorlie Lithium Hydroxide Project. A Feasibility Study will integrate the results of the FEED Study ahead of a potential project investment decision in 1Q 2019. The Project timeline (with plant commissioning targeted for mid-2021) should allow the delivery of 10,000tpa of lithium hydroxide product into the market at a time when the demand growth for lithium is forecast to accelerate considerably. Industry analysts Roskill forecasts demand increasing from 200ktpa lithium carbonate equivalent in 2017 to 400ktpa LCE in 2020/2021 and ~800ktpa LCE by 2025.

Our current, nominal valuation for the WA LiOH Project is A\$30m (~A\$0.05ps) However, we suggest that as the project is further de-risked, with the path to commercialisation (funding, selling price, offtake tonnage, margins, timeframe) more visible, this project also offers significantly higher upside potential. Risks to our earnings profile and target price include, operational performance at the Mt Marion Lithium Mine, spodumene and AUD:USD exchange rate volatility, project development at the WA LiOH and Barrambie Ti-V Projects, and development of the group's portfolio of lithium processing/technology projects.

Share Price: A\$0.32

Target Price: A\$0.43

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

### Resources – Lithium

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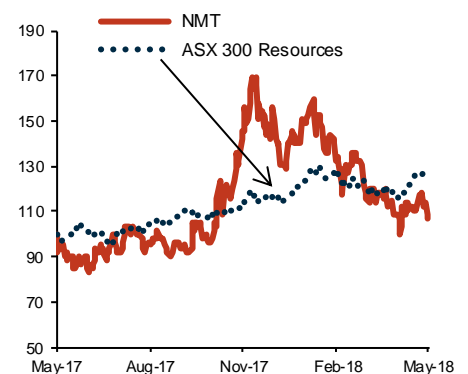
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### Neometals Ltd

ASX Code	NMT
52 week range	A\$0.25-A\$0.53
Market Cap (A\$m)	168
Shares Outstanding (m)	544
Av Daily Turnover (shares)	1.27m
ASX All Ordinaries	6,179
FY17E BV per share (A\$)	0.16
EPS FY17E (A\$)	0.02
Net Cash/(Debt) FY18E (A\$m)	47

### Relative price performance (Source: IRESS)



Source: IRESS

## Financial Statements

### Neometals Limited

Year ending June

Profit & Loss Statement (A\$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	0.0	0.0	0.0	0.0	0.0
Mining	0.0	0.0	0.0	0.0	0.0
Processing	0.0	0.0	0.0	0.0	0.0
Corporate/Admin	(7.6)	(8.0)	(8.2)	(8.3)	(8.5)
<b>EBITDA</b>	<b>(7.6)</b>	<b>(8.0)</b>	<b>(8.2)</b>	<b>(8.3)</b>	<b>(8.5)</b>
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
<b>Operating profit</b>	<b>(7.6)</b>	<b>(8.0)</b>	<b>(8.2)</b>	<b>(8.3)</b>	<b>(8.5)</b>
NOI/income from 13.8% of Mt Marion	9.9	15.5	15.5	15.5	15.5
<b>EBIT</b>	<b>2.3</b>	<b>7.5</b>	<b>7.4</b>	<b>7.2</b>	<b>7.0</b>
Interest income	2.1	2.0	1.4	1.5	1.5
Interest expense	(0.1)	(0.0)	0.0	0.0	0.0
Tax expense	0.4	(1.0)	(0.9)	(2.6)	(2.6)
<b>Reported NPAT</b>	<b>4.7</b>	<b>8.6</b>	<b>7.9</b>	<b>6.1</b>	<b>6.0</b>
<b>Normalised NPAT</b>	<b>4.7</b>	<b>8.6</b>	<b>7.9</b>	<b>6.1</b>	<b>6.0</b>

EBITDA Margin (%)	na	na	na	na	na
Operating profit margin (%)	na	na	na	na	na
EPS Reported (A\$)	0.01	0.02	0.01	0.01	0.01
<b>EPS Normalised (A\$)</b>	<b>0.01</b>	<b>0.02</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
EPS growth (%)	nm	nm	-8%	-23%	-1%
DPS - Declared (A\$)	0.02	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	565	549	549	549	549
YE no. of fully-diluted shares (m)	549	549	549	549	549

Cash Flow Statement (A\$M)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA	(7.6)	(8.0)	(8.2)	(8.3)	(8.5)
Investment in working capital	(6.5)	(1.1)	0.0	0.0	0.0
Tax expense	0.4	(1.0)	(0.9)	(2.6)	(2.6)
<b>Operating Cash Flow</b>	<b>(13.8)</b>	<b>(10.1)</b>	<b>(9.0)</b>	<b>(10.9)</b>	<b>(11.1)</b>
Capex	(2.0)	(4.5)	(4.5)	(4.5)	(4.5)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(2.0)</b>	<b>(4.5)</b>	<b>(4.5)</b>	<b>(4.5)</b>	<b>(4.5)</b>
Net interest received / (paid)	2.0	2.0	1.4	1.5	1.5
Debt draw down / (repayment)	(0.0)	(0.0)	0.0	0.0	0.0
Dividends paid	(11.3)	0.0	0.0	0.0	0.0
Equity raised / (repaid) / Other Adj.	(4.2)	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>(13.5)</b>	<b>2.0</b>	<b>1.4</b>	<b>1.5</b>	<b>1.5</b>
Non-operating & Other	(1.9)	17.0	15.5	15.5	15.5
<b>Inc/(Dec) in Cash</b>	<b>(31.1)</b>	<b>4.4</b>	<b>3.4</b>	<b>1.6</b>	<b>1.5</b>

Balance Sheet (A\$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	42.1	46.5	49.9	51.5	53.0
Receivables	0.9	0.9	0.9	0.9	0.9
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	8.4	8.4	8.4	8.4	8.4
PPE and Exploration & Development	12.8	17.3	21.8	26.3	30.8
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	20.4	20.4	20.4	20.4	20.4
<b>Total Assets</b>	<b>84.6</b>	<b>93.5</b>	<b>101.4</b>	<b>107.5</b>	<b>113.5</b>
Payables and other current Liabilities	2.1	1.0	1.0	1.0	1.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	3.6	5.0	5.0	5.0	5.0
<b>Total Liabilities</b>	<b>5.7</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
<b>Total Equity</b>	<b>78.9</b>	<b>87.5</b>	<b>95.3</b>	<b>101.4</b>	<b>107.4</b>
Net Cash/(debt)	42	46.5	49.9	51.5	53.0

Top 3 Shareholders	%	Date
David Reed	5.8	
HSBC Custody Nominees (Australia)	3.5	Sep-17
Trucking Nominees	3.5	

Source: Company, IRESS, State One Stockbroking forecasts

Received Lithium Price	FY17A	FY18E	FY19E	FY20E	FY21E
Spodumene (6% Li <sub>2</sub> O) (US\$/t, CIF)	650	825	800	750	500
AUD:USD	0.75	0.80	0.80	0.80	0.80
Spodumene (Li <sub>2</sub> O)(A\$/t, CIF)	867	1,031	1,000	938	625
Lithium Hydroxide and Lithium Carbonate basket price (US\$/t)		15,000	12,500	10,000	10,200

Production (Mt Marion)	FY17A	FY18E	FY19E	FY20E	FY21E
Spodumene tonnage (kt) (100%)	156	450	450	450	450

We assume NMT retains a 13.8% interest in the Mt Marion. Tonnage above is on 100% basis and includes 4-5% Spodumene concentrate in FY17A/FY18E.

Production (Downstream)	FY17A	FY18E	FY19E	FY20E	FY21E
Lithium Hydroxide and Lithium Carbonate - combined tonnage	0	0	0	0	0

We assume first production of Lithium Hydroxide (LiOH) from NMT's proposed WA-based facility in FY22E (i.e., from mid-2021).

Costs (A\$/t Spodumene conc.)	FY17A	FY18E	FY19E	FY20E	FY21E
Mining	na	na	na	na	na
Processing	na	na	na	na	na
Admin/Royalty/Other	na	na	na	na	na
Total unit cash costs	na	na	na	na	na

Resources (JORC)	Status	Mt	Grade (%)	Tonnes
Mt Marion Lithium Project (Resource at Dec 2016)	Indicated	28.9	1.35%	390,150
	Inferred	48.9	1.38%	674,820
	Total	77.8	1.37%	1,064,970
Barrambie Ti-V Project	TiO <sub>2</sub>	280.1	9.2%	25,713,180
	V <sub>2</sub> O <sub>5</sub>	280.1	0.44%	1,232,440
Indicated & Inferred (excludes Fe <sub>2</sub> O <sub>3</sub> )				

Note: We assume NMT maintains a 13.8% interest in the Mt Marion Resource

Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	cash	cash	cash	cash	cash
Gearing (ND/ND+E)	cash	cash	cash	cash	cash
Interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised P/E	na	23.6	25.7	33.3	33.8
Price/OP Cash Flow	na	na	na	na	na
Book value per share (A\$)	0.14	0.16	0.17	0.18	0.20
EV/EBITDA	na	na	na	na	na
ROE (%)	6%	10%	8%	6%	6%

SOTP Valuation	(A\$m)	(A\$/share)	Comment
13.8% interest in Mt Marion (risked)	101	0.18	Asking price less 20%
WA LiOH Project	30	0.05	Nominal
Eli Process - Li technology licensing	5	0.01	Nominal
Dexter Process - Li tech licensing	2	0.00	Nominal
Lithium Titanate research project	2	0.00	Nominal
Lithium Battery recycling project	5	0.00	Nominal
Neomet Process - tech. licensing	5	0.01	Nominal
Barrambie Ti/V Project	30	0.05	<10% of NMT's PFS
Equity interest in Hannans (HNR)	12	0.02	Equity market value
<b>Group Enterprise value</b>	<b>192</b>	<b>0.35</b>	
Net (debt)/cash (FY17A)	42	0.08	
<b>Group Equity value</b>	<b>234</b>	<b>0.43</b>	

We assume NMT retains its remaining 13.8% interest in the Mt Marion Lithium Project over our forecast time period, while concentrating on its downstream Li-processing projects, and in progressing the Barrambie Titanium Project.

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