



Neometals Ltd (ASX:NMT)

Lithium hydroxide refinery plans advance

20 June 2018

NMT continues to advance its WA Lithium Hydroxide Project, which looks to beneficiate 6% spodumene concentrate - sourced initially from Mt Marion - to higher value lithium hydroxide (LiOH). 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 Refinery (KLR). Most recently, on 6 June 2018, NMT announced that it had entered into an option agreement with the City of Kalgoorlie-Boulder (CKB) to sub-lease a 40-hectare site in a new industrial estate at West Kalgoorlie. In addition, NMT and CKB have executed a Memorandum of Understanding providing for assistance in procurement of certain infrastructure and utilities for the proposed refinery.

NMT's 10,000tpa LiOH plant is the fifth lithium refinery planned for WA; other plants under development or planned for development include 2 x 45,000tpa refineries at Kwinana - operated by NYSE-listed Sociedad Quimica Y Minera (SQM) & Kidman Resources' (ASX:KDR) and China's Tianqi, a 45,000tpa refinery at Kemerton operated by NYSE-listed Albemarle, and 2x15ktpa refineries planned by Mineral Resources (ASX:MIN) for its Wodgina mine in the Pilbara.

At a typical capex cost of A\$20,000/tonne annual capacity, the above projects could in aggregate result in a combined capex injection into the state of some A\$3.5bn. Not surprisingly, the Western Australian government announced in May 2018 that it was establishing a taskforce - led by Mines Minister Bill Johnson - to facilitate and encourage companies to invest in value-adding lithium downstream processing.

Lithium hydroxide: the cathode of the future

Up until recently, lithium carbonate has been the key (lithium) battery cathode raw material; global supply/demand for lithium is by convention expressed as tonnes of lithium carbonate equivalent (LCE). Industry analysts Roskill forecasts demand increasing from 200ktpa LCE in 2017 to 400ktpa LCE in 2020/2021 and ~800ktpa LCE by 2025. However, LiOH battery cathodes have better power density (and thereby range), longer life cycles, and enhanced safety features. EV leaders such as Tesla have selected LiOH batteries for their vehicles. Importantly, the switch from lithium carbonate to LiOH is shifting perceptions of the cost competitiveness of Australia's hard rock lithium miners. Brine operations - traditionally seen as low-cost - need an extra processing stage to convert their LC to LiOH; spodumene concentrate producers can go straight to LC or LiOH.

State One valuation: 43cps (unchanged)

Our current, nominal valuation for the WA LiOH Project is A\$30m (~5cps), or 12% of our 43cps SOTP target price for NMT. 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 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\$0.34

Target Price: A\$0.43

Recommendation
Speculative Buy

Risk Assessment
Higher

Resources - Lithium

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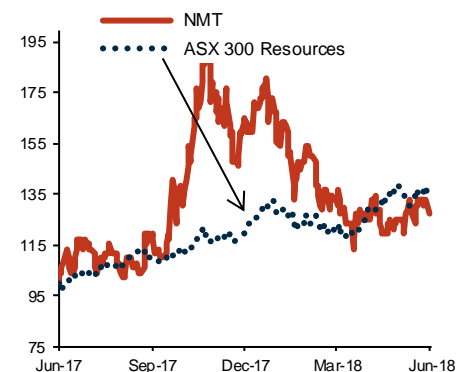
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Neometals Ltd

ASX Code	NMT
52 week range	A\$0.26-A\$0.53
Market Cap (ASm)	182
Shares Outstanding (m)	544
Av Daily Turnover (shares)	1.27m
ASX All Ordinaries	6,245
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)
EBITDA	(7.6)	(8.0)	(8.2)	(8.3)	(8.5)
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Operating profit	(7.6)	(8.0)	(8.2)	(8.3)	(8.5)
NOI/income from 13.8% of Mt Marion	9.9	15.5	15.5	15.5	15.5
EBIT	2.3	7.5	7.4	7.2	7.0
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)
Reported NPAT	4.7	8.6	7.9	6.1	6.0
Normalised NPAT	4.7	8.6	7.9	6.1	6.0

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
EPS Normalised (A\$)	0.01	0.02	0.01	0.01	0.01
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)
Operating Cash Flow	(13.8)	(10.1)	(9.0)	(10.9)	(11.1)
Capex	(2.0)	(4.5)	(4.5)	(4.5)	(4.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(2.0)	(4.5)	(4.5)	(4.5)	(4.5)
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
Financing Cash Flow	(13.5)	2.0	1.4	1.5	1.5
Non-operating & Other	(1.9)	17.0	15.5	15.5	15.5
Incl/(Dec) in Cash	(31.1)	4.4	3.4	1.6	1.5

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
Total Assets	84.6	93.5	101.4	107.5	113.5
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
Total Liabilities	5.7	6.0	6.0	6.0	6.0
Total Equity	78.9	87.5	95.3	101.4	107.4
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 ₂ O) (US\$/t, CIF)	650	825	800	750	500
AUD:USD	0.75	0.80	0.80	0.80	0.80
Spodumene (Li ₂ 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 ₂	280.1	9.2%	25,713,180
	V ₂ O ₅	280.1	0.44%	1,232,440
Indicated & Inferred (excludes Fe ₂ O ₃)				

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
Group Enterprise value	192	0.35	
Net (debt)/cash (FY17A)	42	0.08	
Group Equity value	234	0.43	

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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