

1 May 2019

# Altech Chemicals Limited (ASX: ATC)

## March quarter (3Q FY19) report

### Events

- Stage 1 construction progressing at the HPA plant in Johor, Malaysia.
- Exclusive mandate established with Macquarie Bank (ASX:MQG) for up to US\$90m in mezzanine debt. Completion of a mezzanine facility is conditional upon MQG's view of all due diligence outcomes and agreement with the senior lender (US\$190m) German government-owned KfW IPEX -Bank on inter-creditor arrangements.
- In mid-April, ATC announced the successful completion of an A\$18m (before costs) share placement @ A\$0.1085 per share (~ 16.5% discount to closing price on date of trading halt). The placement was anchored by two German institutional investors (Deutsche Balaton and Delphi) and existing ATC shareholders SMS Investments and the Melewar Group. Note: SMS are also committed to an equity contribution of ~A\$13m at project financial close. Proceeds from the placement will be mainly applied to Stage 2 engineering and construction of the HPA plant.

### State One comment

The official ground-breaking ceremony at the Johor HPA site took place on 8 August 2018; Stage 1 construction is progressing, and now, with more equity financing secured, Stage 2 construction can commence. However, while the (nonbinding) mezzanine financing arrangement with MQG shows that progress on the final financing structure is advancing, progress is slower than we expected. After extensive due diligence carried out by the senior lender, it looks (from the outside) like MQG is "reinventing the wheel" and largely going through the whole process again. ATC states that Macquarie's in-house financial modelling of the project is largely completed, with the principal outstanding input being the HPA price forecast. This will be supplied by London-based CRU Consulting, which has been commissioned by MQG to conduct a HPA market report. Note: the current spot price of 99.99% HPA in Japan is ~US\$40,000/t. In our model, we assume a long-term (real) HPA price of US\$25,000/t. 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\$0.17ps (A\$0.16ps previously)

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 (unchanged) or A\$0.43 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 a deep project-risk discount. We note there have been no updates on previously mooted stream finance facilities or on a partial project sale to a JV partner. However, we view the latest successful capital raise as ongoing market endorsement of the project; consequently, we have lowered our risk discount to 60% (70% previously) Attaching a 60% project-risk discount, we calculate ATC's risk-adjusted equity value at A\$126m or A\$0.17 per diluted share. At current share price levels, we believe that ATC offers risk-adjusted upside potential and **maintain a Speculative Buy (Higher Risk) recommendation**. Our risk-discount could largely unwind if ATC successfully and timeously secures the required funding balance. 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, and lower than expected demand for HPA due to substitution by other materials in making substrates for the LED industry (currently >50% of HPA demand).

Share Price: A\$0.12

Target Price: A\$0.17

**Target Upside: 42%**

Recommendation

**Speculative Buy**

Risk Assessment

**Higher**

### Industrial

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Senior Investment Analyst

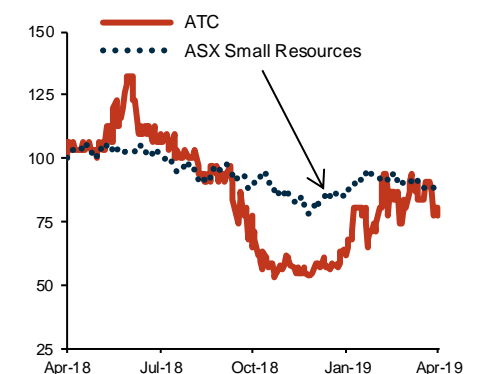
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### Altech Chemicals Limited

ASX Code	ATC
52 week range (A\$cps)	A\$0.08-A\$0.22
Market Cap (A\$m)	84
Quoted shares (m)	704
Av Daily Turnover (shares)	937k
ASX All Ordinaries	6,458
FY19E BV per share (A\$c)	0.09
FY19E EPS (A\$c)	-0.01
FY19E Net (Debt)/Cash (A\$m)	31

### 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)	(0.9)	0.0	0.0	0.0
<b>EBIT</b>	<b>(4.7)</b>	<b>(4.9)</b>	<b>(5.0)</b>	<b>(7.0)</b>	<b>9.5</b>
Interest income	0.1	0.0	12.9	7.2	1.2
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>(4.9)</b>	<b>7.9</b>	<b>0.2</b>	<b>0.7</b>
<b>Normalised NPAT</b>	<b>(3.5)</b>	<b>(4.0)</b>	<b>7.9</b>	<b>0.2</b>	<b>0.7</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	-98%	286%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	363	667	732	732	732
YE no. of fully-diluted shares (m)	601	732	732	732	732

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	12.9	7.2	(8.8)
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	38	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>18.5</b>	<b>438</b>	<b>12.9</b>	<b>7.2</b>	<b>(8.8)</b>
Non-operating & Other	4.0	(0.9)	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>(1.2)</b>	<b>431</b>	<b>(192)</b>	<b>(200)</b>	<b>(7.8)</b>

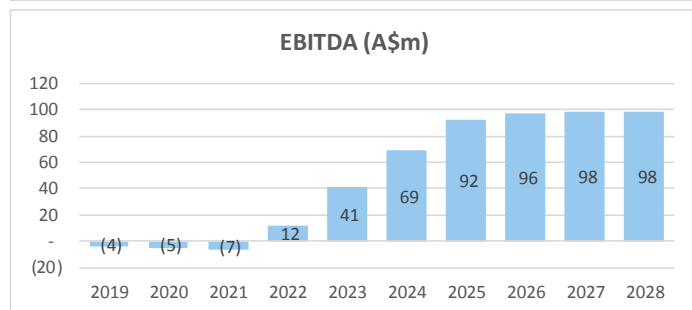
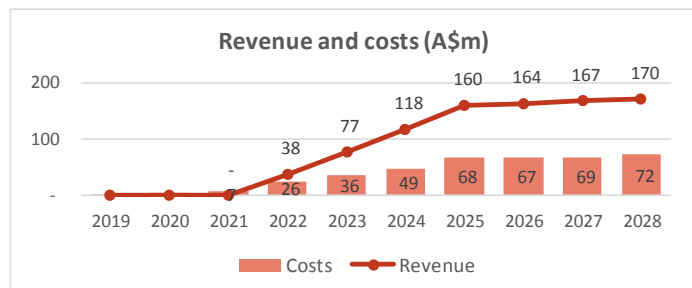
Balance Sheet (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Equivalents	0.3	431	239	39.4	31.7
Receivables	0.1	0.0	0.0	0.0	3.8
Inventories	0.0	0.0	0.0	0.0	2.8
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	34.4	34	234	434	437
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	2.1	2.1	2.1	2.1
<b>Total Assets</b>	<b>34.7</b>	<b>468</b>	<b>476</b>	<b>476</b>	<b>477</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>65</b>	<b>72</b>	<b>73</b>	<b>73</b>
Net Cash / (Debt)	0.3	31.3	(161)	(361)	(368)

Substantial Shareholders	%	Date
SMS Investments	6.8%	
MMA Group Berhad	5.8%	Aug-18
HSBC Cutody 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	-222%	-496%	-502%
Interest Cover (x)	na	na	na	na	1.1

Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised P/E	na	na	11.1	494.0	128.1
Price/OP Cash Flow	-12	-22	-17.6	-12.6	14.5
Book value per share (A\$)	0.05	0.09	0.10	0.10	0.10
EV/EBITDA	-23	-13	-49	-63.6	37.7
ROE (%)	-11%	-6%	11%	0%	1%

Valuation	(A\$m)	(A\$/share)	Comment
HPA Project Reserve (1.22Mt)	711	0.97	NPV
Resource outside of Reserve	4	0.01	Nominal
Enterprise value	715	0.98	
Project debt	(400)	(0.55)	
Equity value (unrisked)	315	0.43	Equity valuation - unrisked
<b>Risk discount</b>	<b>60%</b>		<b>Timing / financing /operational</b>
Equity value (risked) & target price	126	0.17	Equity valuation - risked

Note: Per share valuation based on 732 million shares (diluted)

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