

# Neometals Ltd

## Attractive entry point ...valued at cash only

On 23 March 2017, NMT gave notice to the group's Mt Marion Lithium Project JV partners (Minerals Resources (ASX:MIN) and Ganfeng Lithium) that it was looking to sell its remaining 13.8% interest in the Project for US\$96m (A\$126m). The JV partners had 30 days from receiving the sale notice to decide whether to exercise first rights of refusal. NMT announced today (26 April 2017) that neither partner has exercised their rights, and that it was now in discussions with interested third parties.

### FY17E cash balance of A\$185m = A\$0.33ps

Predicated on concluding a sale in FY17E at the nominated price, we forecast NMT's cash balance increasing from A\$57m at end-December 2016, to A\$185m (A\$0.33ps) by end-June 2017. Thus, at current share price levels, we suggest that the market is effectively valuing NMT as a cash shell, and attaching zero value to the group's other assets – specifically various downstream lithium processing projects and the Barrambie Titanium Project.

- In July 2016, an updated Feasibility Study confirmed the technical feasibility and economic viability (pre-tax NPV<sub>12</sub> of US\$482m) of producing 20ktpa of lithium carbonate equivalent (LCE) at a proposed plant in Malaysia using the group's proprietary ELi Process®. Including the potential for conventional hard-rock processing (sulphate/caustic) JVs in Australia, we attach a risk-weighted value of **A\$38m/A\$0.06ps to NMT's lithium ore/brine processing opportunities**.
- The technology behind the ELi Process® is owned by Reed Advanced Materials (RAM), a 70:30 JV between NMT and MIN. RAM is in discussions with third parties regarding sub-licensing the technology. **State One estimated value: A\$2m (nominal)**.
- NMT has 50% interest in a lithium battery recycling Project. A scoping study carried out by Sedgman indicates cobalt recovery costs of US\$4.45/lb (vs US\$25/lb spot), and recommends progressing the Project to a semi-pilot plant stage. **State One estimated value: A\$5m (nominal)**.
- Barrambie Project - NMT's "sleeping giant" is one of the world's highest grade titanium deposits. A 2015 PFS carried out by Snowden (with capital and operating costs from Sedgman) indicated a pre-tax NPV<sub>12</sub> of A\$355m. **State One estimated value: A\$15m (nominal)**.
- At Hannans Limited (ASX:HNR) current share price of A\$1.4c, we calculate NMT's equity interest in the Swedish-focused base metal and lithium explorer at A\$9.94m (A\$0.02 per NMT share).

**Our SOTP valuation of A\$255m or A\$0.45ps, indicates some 40% upside potential.** We believe that the Mt Marion Lithium Project has clearly demonstrated management's ability to identify opportunities, de-risk projects, and bring on board JV partners for final commercialisation. A cash-rich and market-knowledgeable operator is looking to replicate this success in the downstream lithium-beneficiating space. Risks to our earnings profile and target price include, but are not limited to: the sale of NMT's remaining 13.8% interest in Mt Marion, lithium hydroxide/lithium carbonate and AUD:USD exchange rate volatility, project development at Barrambie Titanium (NMT 100% interest), and development of the group's downstream lithium Projects (various interests).

26 April 2017

**NMT A\$0.32 (TP A\$0.45)**

**Recommendation**  
**Speculative Buy**

**Risk Assessment**  
**Higher**

### Resources – Lithium

David Brennan, CFA

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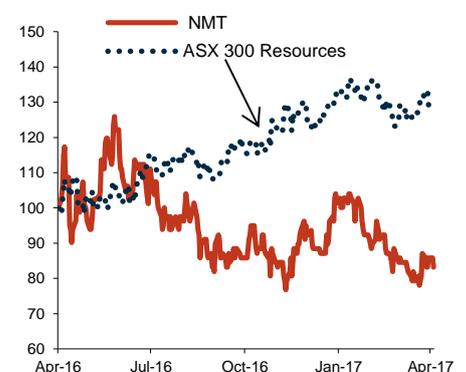
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### Neometals Ltd

ASX Code	NMT
52 week range	A\$0.29-A\$0.49
Market Cap (ASm)	177
Shares Outstanding (m)	563
Av Daily Turnover (shares)	1.3m
ASX All Ordinaries	5,942
FY17E BV per share (A\$)	0.36
EPS FY17E (A\$)	0.22
Net Cash/(debt) FY17E (A\$m)	185

### Relative price performance



Source: IRESS

## Financial Statements

### Neometals Limited

Year ending June

Profit & Loss Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue	0.0	6.0	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
NMT Corporate/Admin	(4.9)	(6.5)	(3.0)	(3.0)	(3.0)
<b>EBITDA</b>	<b>(4.9)</b>	<b>(0.5)</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(3.0)</b>
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
<b>Operating profit</b>	<b>(4.9)</b>	<b>(0.5)</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(3.0)</b>
NOI/income from 13.8% of Mt Marion	88.3	135	0.0	0.0	0.0
<b>EBIT</b>	<b>83.4</b>	<b>135</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(3.0)</b>
Interest income	0.7	2.9	5.6	5.1	4.7
Interest expense	(0.3)	(0.0)	0.0	0.0	0.0
Tax expense	0.8	(13.8)	(0.8)	(0.6)	(0.5)
<b>Reported NPAT</b>	<b>84.6</b>	<b>124</b>	<b>1.8</b>	<b>1.4</b>	<b>1.2</b>
<b>Normalised NPAT</b>	<b>(3.7)</b>	<b>124</b>	<b>1.8</b>	<b>1.4</b>	<b>1.2</b>
EBITDA Margin (%)	na	na	na	na	na
Operating profit margin (%)	na	na	na	na	na
EPS Reported (A\$)	0.15	0.22	0.00	0.00	0.00
<b>EPS Normalised (A\$)</b>	<b>(0.01)</b>	<b>0.22</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
EPS growth (%)	nm	nm	nm	-19%	-17%
DPS - Declared (A\$)	0.02	0.02	0.02	0.02	0.02
Avg. no. of fully-diluted shares (m)	542	565	558	550	550
YE no. of fully-diluted shares (m)	565	565	550	550	550

Cash Flow Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(4.5)	(1)	(3)	(3)	(3)
Investment in working capital	(1.1)	1	0	0	0
Tax expense	0.8	(14)	(1)	(1)	(1)
<b>Operating Cash Flow</b>	<b>(4.7)</b>	<b>(14)</b>	<b>(4)</b>	<b>(4)</b>	<b>(4)</b>
Capex	(1.3)	(2)	(2)	(2)	(2)
Other investments	0.0	0	0	0	0
<b>Investing Cash Flow</b>	<b>(1.3)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
Net interest received / (paid)	0.4	3	6	5	5
Debt draw down / (repayment)	(1.9)	(0)	0	0	0
Dividends paid	(11.2)	(11)	(11)	(11)	(11)
Equity raised / (repaid) / Other Adj.	2.5	0	(5)	0	0
<b>Financing Cash Flow</b>	<b>(10.1)</b>	<b>(8)</b>	<b>(11)</b>	<b>(6)</b>	<b>(6)</b>
Non-operating & Other	88.0	136	0	0	0
<b>Inc/(Dec) in Cash</b>	<b>71.8</b>	<b>112</b>	<b>(16)</b>	<b>(12)</b>	<b>(12)</b>

Balance Sheet (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	73.2	185	169	158	146
Receivables	0.6	0	0	0	0
Inventories	0.0	0	0	0	0
Other Current Assets	1.6	0	0	0	0
PPE and Exploration & Development	12.0	14	16	18	20
Deferred tax asset	0.0	0	0	0	0
Other Non Current Assets	8.3	8	8	8	8
<b>Total Assets</b>	<b>95.7</b>	<b>208</b>	<b>193</b>	<b>184</b>	<b>174</b>
Payables and other current Liabilities	1.6	0	0	0	0
Short Term Debt	0.0	0	0	0	0
Long Term Debt	0.0	0	0	0	0
Other Non Current Liabilities	4.4	5	5	5	5
<b>Total Liabilities</b>	<b>6.1</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Total Equity</b>	<b>89.6</b>	<b>203</b>	<b>188</b>	<b>179</b>	<b>169</b>
Net Cash/(debt)	73	185	169	158	146

Top 3 Shareholders	%	Date
David Reed	11.7	
Melaid Holding Inc	6.8	Sep-16
HSBC Custody Nominees (Australia) L	3.7	

Source: Company, IRESS, State One Stockbroking forecasts

Received Lithium Price	FY16A	FY17E	FY18E	FY19E	FY20E
Spodumene (6% Li <sub>2</sub> O) (US\$/t, CIF)		525	525	536	546
AUD:USD		0.75	0.75	0.75	0.75
Spodumene (Li <sub>2</sub> O)(A\$/t, CIF)		700	700	714	728
Lithium Hydroxide and Lithium Carbonate basket price (US\$/t)		15,000	12,500	10,000	10,200

Production (Mt Marion)	FY16A	FY17E	FY18E	FY19E	FY20E
Spodumene tonnage (kt) (100%)	0	90	n/a	n/a	n/a

We assume NMT completes the planned sale of its remaining 13.8% in Mt Marion by end- June 2017. From FY18E, we assume zero tonnage attributable to NMT from Mt Marion.

Production (Downstream)	FY16A	FY17E	FY18E	FY19E	FY20E
Lithium Hydroxide and Lithium Carbonate - combined tonnage	0	0	0	0	0

We assume first production of Lithium Hydroxide (LiOH.H<sub>2</sub>O) and Lithium Carbonate (Li<sub>2</sub>CO<sub>3</sub>) from NMT's proposed Malaysia- based downstream operation in FY21E (i.e., from mid-2020)

Costs (A\$/t Spodumene conc.)	FY16A	FY17E	FY18E	FY19E	FY20E
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	1.4%	674,820
	<b>Total</b>	<b>77.8</b>	<b>1.37%</b>	<b>1,064,970</b>
<b>Barrambie Ti-V Project</b>	TiO <sub>2</sub>	47.2	22.2%	10,468,960
	V <sub>2</sub> O <sub>5</sub>	47.2	0.63%	297,360
	Fe <sub>2</sub> O <sub>3</sub>	47.2	46.7%	22,042,400

Note: We assume NMT has zero interest in Mt Marion Resource as from end June 2017

Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	82%	92%	90%	88%	86%
Gearing (ND/ND+E)	76%	89%	87%	86%	84%
Interest Cover (x)	na	na	na	na	na

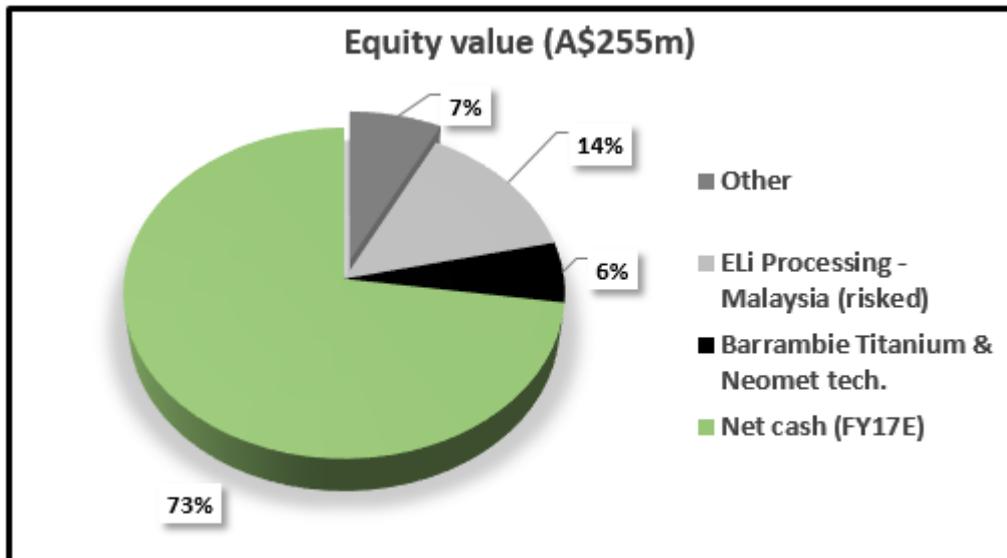
Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised P/E	na	na	na	na	na
Price/OP Cash Flow	na	na	na	na	na
Book value per share (A\$)	0.16	0.36	0.34	0.32	0.31
EV/EBITDA	na	na	na	na	na
ROE (%)	na	na	na	na	na

SOTP Valuation	(A\$m)	(A\$/share)	Comment
Mt Marion Lithium Mine inventory	0	0.00	Assume 0% interest
ELi Project - Malaysia (unrisked)	356	0.63	State One estimate
<i>Risk discount</i>	<i>90%</i>		
ELi Project - Malaysia (risked)	36	0.06	10% of unrisked NPV
ELi Processing - technology licensing	2	0.00	Nominal
Conventional Lithium Processing	2	0.00	Nominal
Battery recycling	5	0.01	Nominal
Barrambie Titanium & Neomet tech.	15	0.03	Nominal
Equity interest in Hannans (HNR)	10	0.03	
<b>Group Enterprise value</b>	<b>70</b>	<b>0.12</b>	
Net (debt)/cash (FY17E)	185	0.33	
<b>Group Equity value</b>	<b>255</b>	<b>0.45</b>	

We assume NMT will dispose of its remaining 13.8% interest in the Mt Marion Lithium Project by end FY17E, to concentrate on its downstream Li-processing projects, and in progressing the Barrambie Titanium Project.

**Figure 1: Sum-of-the-parts (SOTP) valuation**

	(A\$m)	(A\$ps)	Comment
Mt Marion Lithium Mine mine inventory	0	0.00	Assume fully sold by end FY17E
ELi Processing -Malaysia (unrisked)	356	0.63	As per State One NPV estimate
<i>Risk weighting</i>	<i>90%</i>		<i>90% discount</i>
ELi Processing - Malaysia (risked)	36	0.06	i.e., 10% of State One unrisked valuation
ELi Processing - technology licensing	2	0.00	Nominal
Conventional Lithium Processing	2	0.00	Nominal
Battery recycling	5	0.01	Nominal
Barrambie Titanium & Neomet tech.	15	0.03	Nominal (versus PFS NPV of A\$355m)
Equity interest in Hannans (ASX:HNR)	10	0.02	709m shares @ A\$1.4cps
<b>Group Enterprise value</b>	<b>70</b>	<b>0.12</b>	
Net cash/(debt) (FY17E)	185	0.33	State One estimate
<b>Group Equity value</b>	<b>255</b>	<b>0.45</b>	



Source: IRESS, Company, State One Stockbroking forecasts

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