



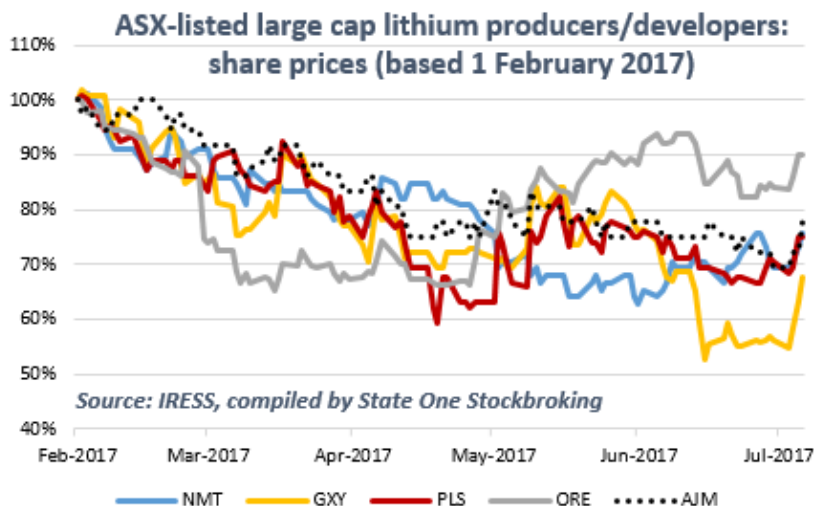
Neometals Ltd

2H 2017 lithium price surprising the market

On 5 July 2017, NMT and Mt Marion JV partner Mineral Resources (ASX:MIN) announced that pursuant to the terms of the Offtake Agreement with their partner, Ganfeng Lithium, the price payable for 6% spodumene concentrate increased from US\$750/t to US\$841/t (CFR, China), effective 1 July 2017.

State One Stockbroking comments

We note that Galaxy Resources (ASX:GXY) is getting up to US\$905/t (some US\$64/t higher) for 6% grade equivalent. Nevertheless, NMT's 12% price hike (for 6% spodumene concentrate produced at Mt Marion) indicates to us that the broader lithium market remains in robust health. Recent press and analyst reports suggest that the market is revising up near and medium-term Li price expectations – primarily on the back of revised Li-battery demand forecasts (for New Energy Vehicles (NEVs) in particular). We note that in late June, Macquarie Bank – after predicting last year an oversupply of the commodity – upgraded their forecasts for the lithium price in 2020-2022 by 20-30% and lifted their outlook for several local lithium players. In a [3 July update](#), well-respected lithium industry expert Joe Lowry (Global Lithium) forecasts that “moving into Q3, pricing in China is going up rather than down” and dismisses fears of DSO (direct shipped ore) from Australia negatively impacting supply or market prices. **We believe that market concern over Li price direction is largely to blame for the broad-based sell-off seen in lithium stocks in the first half of the year. As these fears are allayed (even reversed), we suggest that lithium stock prices could rebound significantly.**



Our SOTP valuation for NMT of A\$237m or A\$0.42ps, 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).

7 July 2017

Share Price: A\$0.295 (close 6 July 2017)

Target Price: A\$0.42

Recommendation
Speculative Buy

Risk Assessment
Higher

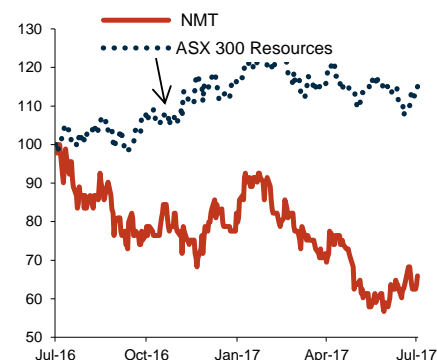
Resources – Lithium

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Neometals Ltd

ASX Code	NMT
52 week range	A\$0.25-A\$0.46
Market Cap (A\$m)	156
Shares Outstanding (m)	546
Av Daily Turnover (shares)	0.93m
ASX All Ordinaries	5,796
FY17E BV per share (A\$)	0.14
EPS FY17E (A\$)	0.0
Net Cash/(debt) FY17E (A\$m)	63

Relative price performance (Source: IRESS)



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)
EBITDA	(4.9)	(0.5)	(3.0)	(3.0)	(3.0)
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Operating profit	(4.9)	(0.5)	(3.0)	(3.0)	(3.0)
NOI /income from 13.8% of Mt Marion	88.3	0	135	0	0
EBIT	83.4	(1)	132	(3)	(3)
Interest income	0.7	2.9	2	5	5
Interest expense	(0.3)	(0.0)	0	0	0
Tax expense	0.8	(0.2)	(13)	(1)	(0)
Reported NPAT	84.6	2	121	1	1
Normalised NPAT	(3.7)	2	121	1	1
EBITDA Margin (%)	na	na	na	na	na
Operating profit margin (%)	na	na	na	na	na
EPS Reported (A\$)	0.15	0.00	0.22	0.00	0.00
EPS Normalised (A\$)	(0.01)	0.00	0.22	0.00	0.00
EPS growth (%)	nm	nm	nm	-99%	-18%
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	(0)	(13)	(1)	(0)
Operating Cash Flow	(4.7)	(0)	(16)	(4)	(3)
Capex	(1.3)	(2)	(2)	(2)	(2)
Other investments	0.0	0	0	0	0
Investing Cash Flow	(1.3)	(2)	(2)	(2)	(2)
Net interest received / (paid)	0.4	3	2	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
Financing Cash Flow	(10.1)	(8)	(14)	(6)	(6)
Non-operating & Other	88.0	1	135	0	0
Inc/(Dec) in Cash	71.8	(10)	102	(12)	(12)

Balance Sheet (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	73.2	63	166	154	142
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
Total Assets	95.7	86	190	180	171
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
Total Liabilities	6.1	5	5	5	5
Total Equity	89.6	81	185	175	166
Net Cash/(debt)	73	63	166	154	142

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 ₂ O) (US\$/t, CIF)		525	525	536	546
AUD:USD		0.75	0.75	0.75	0.75
Spodumene (Li ₂ 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.H₂O) and Lithium Carbonate (Li₂CO₃) 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
	Total	77.8	1.37%	1,064,970
Barrambie Ti-V Project	TiO ₂	47.2	22.2%	10,468,960
	V ₂ O ₅	47.2	0.63%	297,360
	Fe ₂ O ₃	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%	79%	90%	88%	86%
Gearing (ND/ND+E)	76%	74%	87%	85%	83%
Interest Cover (x)	na	na	na	na	na

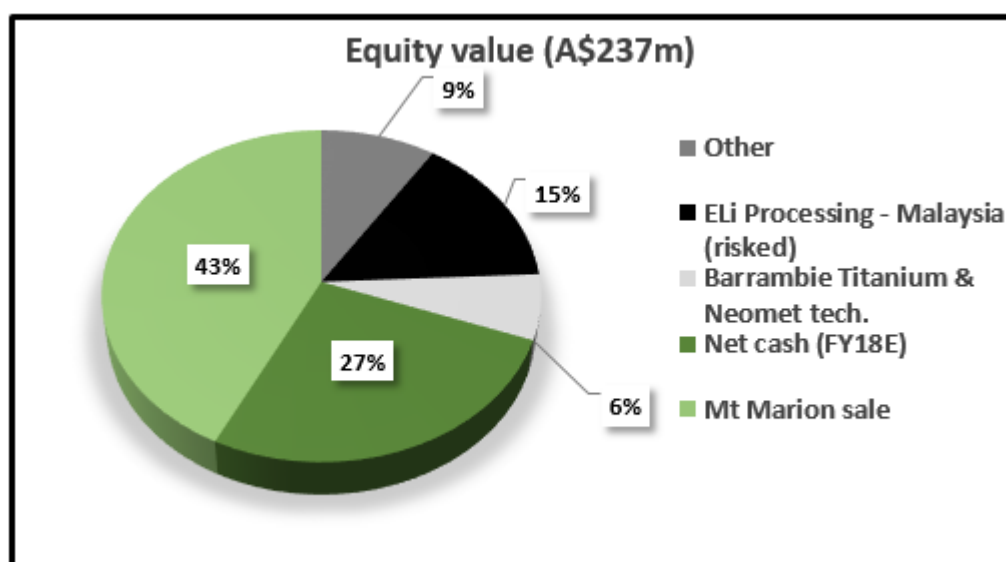
Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised P/E	na	na	na	na	na
Price/OP Cash Flow	na	na	na	na	na
Book value per share (A\$)	0.16	0.14	0.34	0.32	0.30
EV/EBITDA	na	na	na	na	na
ROE (%)	na	na	na	na	na

SOTP Valuation	(A\$m)	(A\$/share)	Comment
Mt Marion sales proceeds (risked)	101	0.18	Asking price less 20%
ELi Project - Malaysia (unrisked)	356	0.63	State One estimate
Risk discount	90%		
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)	13	0.04	
Group Enterprise value	173	0.31	
Net (debt)/cash (FY17E)	63	0.11	
Group Equity value	237	0.42	

We assume NMT will dispose of its remaining 13.8% interest in the Mt Marion Lithium Project in FY18E, 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 (13.8% interest) (risked)	126	0.22	US\$96m @ US\$0.75
<i>Risk weighting</i>	<i>20%</i>		<i>20% discount for transaction risk/timing</i>
Mt Marion Lithium (13.8% interest) (unrisked)	101	0.18	i.e., 80% of asking asking price
ELi Processing -Malaysia (unrisked)	356	0.63	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)	13	0.02	709m shares @ A\$1.8cps
Group Enterprise value	173	0.31	
Net cash/(debt) (FY17E)	63	0.11	State One estimate
Group Equity value	237	0.42	



Source: IRESS, Company, State One Stockbroking forecasts

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