



# Neometals Ltd (ASX:NMT)

## De-risking projects key to value uplift

A\$170m or 68% of our A\$249m SOTP valuation for Neometals (ASX:NMT) is comprised of 1) our valuation of NMT's 13.8% interest in the operating Mt Marion Lithium Mine, 2) NMT's FY18E cash balance and, 3) NMT's equity stake in ASX-listed diversified minerals explorer Hannans Ltd (HNR). We view this aggregate valuation – equivalent to 31cps – as "locked-in", with relatively low forecast risk.

At current share price levels of 37.5cps, the market appears to be attaching (only) A\$36m or 6.5cps to NMT's extensive portfolio of technology projects and the globally significant Barrambie Titanium/Vanadium Resource (47.2Mt @ 22.2% TiO<sub>2</sub>, 0.63% V<sub>2</sub>O<sub>5</sub>). We believe this is overly conservative; our risk-adjusted valuation for these projects is closer to A\$79m or 14cps. However, we suggest that as the projects are de-risked, with the path to commercialisation (quantum of revenue, timeframe) more visible, NMT has the potential to offer significantly higher upside for speculative investors. 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 lithium processing/technology projects.

12 February 2018

Share Price: A\$0.375

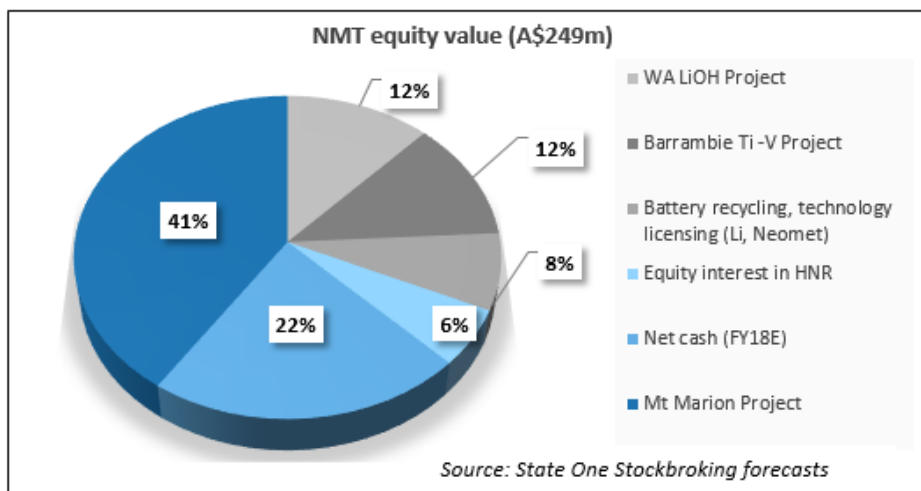
Target Price: A\$0.45

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

### Resources – Lithium

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### Neometals Ltd

ASX Code	NMT
52 week range	A\$0.25-A\$0.41
Market Cap (A\$m)	147
Shares Outstanding (m)	546
Av Daily Turnover (shares)	0.98m
ASX All Ordinaries	5,823
FY17E BV per share (A\$)	0.15
EPS FY17E (A\$)	0.02
Net Cash/(Debt) FY17E (A\$m)	62

### Project status

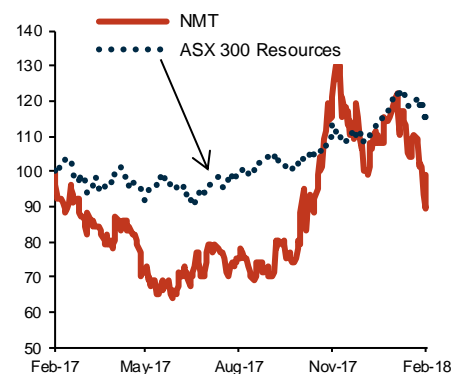
**WA Lithium Hydroxide Project:** project partner discussions taking place with several globally significant players in the battery and car industries, vendor equipment test work progressing with report expected in March 2018, FEED study report expected to be delivered by late 2018.

**Barrambie Ti/V Project:** mining proposal lodged to permit production of a bulk sample for DSO, processor (potential customer in China) also evaluating core sample, Minimax pilot plant to evaluate Neomet process expected to commence in September 2018 quarter.

**Lithium Battery Recycling Project:** construction of pilot plant in Canada nearing completion, pilot operation scheduled to commence in March 2018 quarter, engineering cost study to follow pilot tests.

**Li Processing Technology:** ELi Process - in discussion with potential users regarding sub-licensing; Dexter Process & Li Titanate Process – test-work ongoing.

### 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	22.0	20.0	18.0	13.0
<b>EBIT</b>	<b>2.3</b>	<b>14.0</b>	<b>11.8</b>	<b>9.7</b>	<b>4.5</b>
Interest income	2.1	2.0	1.6	1.9	2.1
Interest expense	(0.1)	(0.0)	0.0	0.0	0.0
Tax expense	0.4	(1.6)	(1.3)	(3.5)	(2.0)
<b>Reported NPAT</b>	<b>4.7</b>	<b>14.4</b>	<b>12.1</b>	<b>8.1</b>	<b>4.7</b>
<b>Normalised NPAT</b>	<b>4.7</b>	<b>14.4</b>	<b>12.1</b>	<b>8.1</b>	<b>4.7</b>

EBITDA Margin (%)	na	na	na	na	na
Operating profit margin (%)	na	na	na	na	na
EPS Reported (A\$)	0.01	0.03	0.02	0.01	0.01
<b>EPS Normalised (A\$)</b>	<b>0.01</b>	<b>0.03</b>	<b>0.02</b>	<b>0.01</b>	<b>0.01</b>
EPS growth (%)	nm	nm	-16%	-33%	-43%
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	(1.6)	(1.3)	(3.5)	(2.0)
<b>Operating Cash Flow</b>	<b>(13.8)</b>	<b>(10.7)</b>	<b>(9.5)</b>	<b>(11.8)</b>	<b>(10.5)</b>
Capex	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.0)</b>
Net interest received / (paid)	2.0	2.0	1.6	1.9	2.1
Debt draw down n / (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>1.6</b>	<b>1.9</b>	<b>2.1</b>
Non-operating & Other	(1.9)	23.4	20.0	18.0	13.0
<b>Inc/(Dec) in Cash</b>	<b>(31.1)</b>	<b>12.7</b>	<b>10.1</b>	<b>6.1</b>	<b>2.7</b>

Balance Sheet (A\$M)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	42.1	54.9	65.0	71.1	73.8
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	14.8	16.8	18.8	20.8
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>99.3</b>	<b>111.5</b>	<b>119.6</b>	<b>124.3</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>93.3</b>	<b>105.4</b>	<b>113.6</b>	<b>118.2</b>
Net Cash/(debt)	42	54.9	65.0	71.1	73.8

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		15,000	12,500	10,000	10,200
Carbonate basket price (US\$/t)					

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	0	0	0	0	0
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>	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 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	14.1	16.7	24.9	43.6
Price/OP Cash Flow	na	na	na	na	na
Book value per share (A\$)	0.14	0.17	0.19	0.21	0.22
EV/EBITDA	na	na	na	na	na
ROE (%)	6%	15%	12%	7%	4%

SOTP Valuation	(A\$m)	(A\$/share)	Comment
13.8% interest in Mt Marion (risky)	101	0.18	Asking price less 20%
WA LiOH Project	30	0.05	25% risky valuation
Ei 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)	14	0.03	Equity market value
<b>Group Enterprise value</b>	<b>194</b>	<b>0.35</b>	
Net (debt)/cash (FY18E)	55	0.10	
<b>Group Equity value</b>	<b>249</b>	<b>0.45</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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