

Neometals Ltd

(NMT \$0.35) Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	3 rd March 2021	\$0.88/sh ▲ from \$0.35/sh

Lithium battery recycling in Europe...Boom!

Investment case

NMT is in JV to develop a LIB (“lithium-ion battery”) recycling business with an initial footprint in Europe. It is very advanced, with the demonstration scale plant due for commissioning in coming months. FID for subsequent commercial starter plant production (20ktpa capacity) is early CY22. The potential growth is substantial, and industry tailwinds are extremely strong. The second European project is vanadium recovery from stock-piled steel slags in Finland and Sweden. The longer-term projects are a lithium conversion facility to process Mt Marion offtake (current plan is India) and the final project is the very large Barrambie titanium/vanadium deposit.

Key points

- NMT is advancing its LIB recycling project in Europe.
- Our valuation for the first commercial recycling plant (20ktpa) is A\$270m (50% A\$135m);
- There is a USA SPAC transaction peer called Li-Cycle (PDAC.NYS) that has a significant pro-forma market capitalisation ([link](#)). Another North American peer (**Redwood Materials**) is also getting a lot of attention in the media following its recent deal with Tesla;
- Our valuation on a LIB expansion to 180ktpa by 2030 (NPV12) increases LIB valuation to A\$500m (50% share) in today's dollars;
- As the LIB is de-risked through this year, and moves towards construction in 2022 we expect a meaningful re-rate;
- The other development assets all have significant potential, although are overshadowed by the potential of the LIB, in our view;
- We have a Buy recommendation with a \$0.88 price target.

Neometals Ltd	Year End 30 June	
Share Price	0.35	A\$/sh
Price Target	0.88	A\$/sh
Valuation (DCF)	0.97	A\$/sh
WACC	12%	
Terminal Growth	0%	
Shares on issue	549 m, diluted	
Market Capitalisation	192.1	A\$m
Enterprise Value	119.4	A\$m
Cash (31 Dec 20a)	72.7	A\$m
Debt (31 Dec 20a)	-	A\$m

Key Financials	2020A	2021F	2022F
Revenue (A\$m)	0.0	0.0	0.0
EBITDA (A\$m)	-16.0	-12.8	-10.2
EBITA (A\$m)	-16.7	-18.2	-14.4
Reported NPAT (A\$m)	-14.6	-16.7	-15.0
Normalised NPAT (A\$m)	-11.1	-12.0	-10.8

Operating Cashflow (A\$m)	-11.5	-11.4	-11.1
Capex (A\$m)*	-8.7	-2.0	-81.6
Op. Free Cashflow (A\$m)	-20.2	-13.3	-92.7

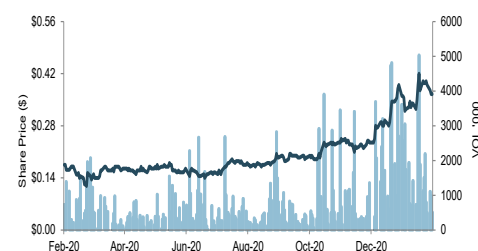
Revenue Growth (%)	nm	nm	nm
EBITDA Growth (%)	nm	nm	nm
Norm. NPAT Growth (%)	nm	nm	nm

Normalised EPS (Ac)	-2.0	-2.2	-2.0
Norm. EPS growth (%)	nm	nm	nm
PER (x)	nm	nm	nm
EV:EBITDA (x)	nm	nm	nm
EV:EBIT (x)	nm	nm	nm

DPS (Ac)	2.0	0.0	0.0
Dividend Yield (%)	5.7%	0.0%	0.0%

Net Debt (A\$m)	-75.8	-62.5	30.3
Net Debt:Equity (%)	0%	nm	30%
Interest Cover (x)	0.0	nm	nm

Share Price Chart



Disclaimer

Euroz Hartleys Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to NMT during the last year. Euroz Hartleys Securities has received a fee for these services.

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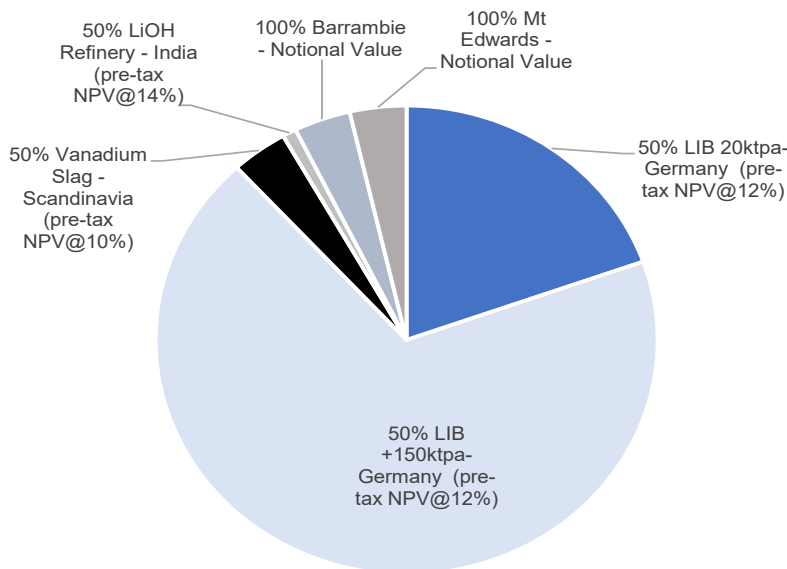


Analysis

NMT has four main projects. All are expected to be financed with JV's, with three projects already in MOU partnerships and the fourth subject to a collaboration agreement. The main project is the LIB (battery recycling). The second project is vanadium recovery from steel slags stockpiled in Scandinavia. The longer-term project are a lithium conversion facility to process Mt Marion offtake (current plan is India) and the final project is the very large Barrambie titanium/vanadium deposit.

Our valuation attributes most value to the LIB (battery recycling) development. We value the initial development at ~\$270m (100% basis), but peers are valued significantly higher. One peer in the USA (Li-Cycle) is catering a SPAC at an implied valuation of ~US\$1b.

Euroz Hartleys Valuation



Source: Euroz Hartleys

Li-cycle is a Spac IPO in the USA

Transaction Overview

OVERVIEW	<ul style="list-style-type: none"> Li-Cycle is a market leading lithium-ion battery resource recovery company and the largest lithium-ion battery recycler in NAM Peridot Acquisition Corp. is a blank check company sponsored by Carnelian Energy Capital targeting energy transition-focused opportunities Proceeds raised via Peridot merger and PIPE fully fund required capex to build Li-Cycle's Spoke-and-Hub facilities
PIPE OVERVIEW	<ul style="list-style-type: none"> Fully committed, upsized \$315 million PIPE PIPE investors include Neuberger Berman Funds, Franklin Templeton and Mubadala Capital. Also includes Peridot sponsor Carnelian Energy Capital, existing Li-Cycle investor Moore Strategic Ventures and global marketing and strategic off-take partner Traxys
CAPITAL STRUCTURE	<ul style="list-style-type: none"> Li-Cycle's shareholders are rolling 100% of their equity Pro Forma for the transaction, Li-Cycle will have \$566mm of cash and no debt⁽¹⁾ Li-Cycle is commercial today and expects to be cash flow positive (net of capital expenditures) by 2024E
VALUATION	<ul style="list-style-type: none"> Enterprise Value of \$1,099mm, which is 10.1x of 2023E EBITDA or 3.2x 2024E EBITDA Represents a 73% discount to future value derived from 2024E EBITDA discounted to today

Li-Cycle is a unique and compelling investment opportunity and is a market leader in the lithium-ion battery recycling sector

Note: (1) Assumes no Peridot shareholder redemptions.

Source: PowerPoint Presentation (li-cycle.com)

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Battery Recycling (LIB), 50/50 JV - Germany

NMT is in 50/50 JV with SMS group GmbH (European Engineering Company) for the construction and operation of lithium battery recycling plants. The project is very advanced (study work, site, offtakes etc). Commissioning of the demonstration plant is imminent (April), with completion of the processing trials for customer evaluation in July.

Following the demonstration plant commissioning, the JV will proceed towards commercial scale FID by March 2022. As a reminder, the commercial site will need to secure operating permits subject to the location chosen (site selection underway now in parallel with feed supply and offtake dialogues). The initial commercial project targets 20ktpa throughout capacity and the second larger plant should be capable of 200ktpa as recycling demand increases (ie by 2030). Additional sites could be required through the 2030's as recycling peaks and then matures.

The project will be staged over 10 years so that it can match the life cycle of EV's as they are rolled out.

As well as earnings revenue from the sale of the products (inc. nickel sulfate, cobalt sulfate, lithium and copper), disposal service fees can also be generated. The high purity products are targeted for sale to cathode makers could also earn a premium above spot given its low-carbon footprint and EU legislation that will mandate minimum recycled content in new batteries.

The two-stage recycling flowsheet shreds and beneficiates (Spoke) to make an intermediate ("Black Mass") before stage two hydromet refining (Hub) to make high purity cathode chemicals. Given that Neometals will be introducing Europe's largest shredding plant via its demonstration trial, it is plausible that NMT starts a semi-commercial plant selling blackmass intermediate while constructing and ramping up its stage two refinery (Hub). This would potentially reduce NMT's upfront funding requirement, noting the lower recycling efficiency and higher carbon footprint from selling black mass are only short term whilst the hydromet refinery increases throughout capacity to nameplate.

Our model assumes production of nickel, cobalt and lithium sulphate plus copper/aluminium foils. Low value materials like graphite, plastic, steel scrap have not been attributed any value. There is a possibility of additional by-product revenue streams once confirmed in the feasibility study.

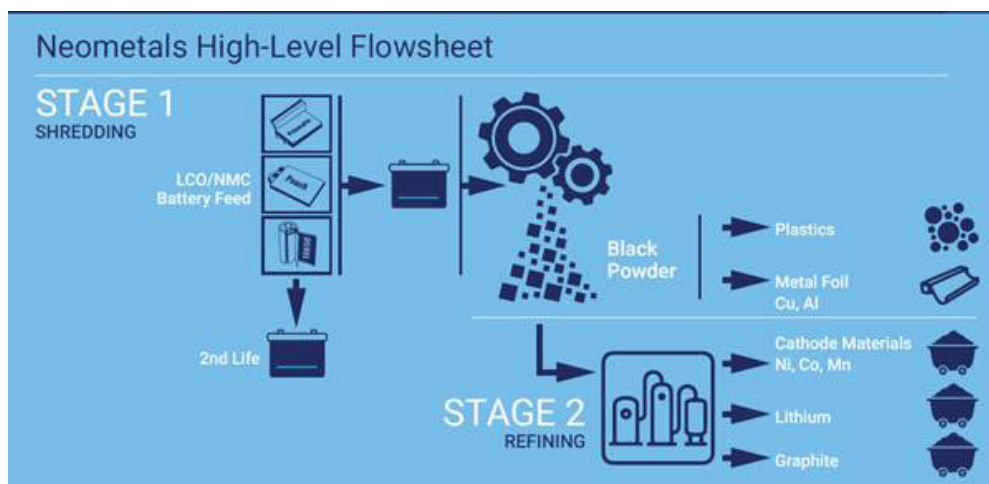
Capex is estimate at US\$66m capex for both stages (scoping study level, 4 June 2019). The \$10m capex for the Spoke (Stage 1) is for the shredding and balance is for the Hub (recovering the individual products). The JV partner will arrange the debt financing, and NMT currently has enough cash on balance sheet for its equity contribution.

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Table 1: Scoping Study Highlights

Scoping Study Highlights	
Annual Production	9,623 t Cobalt Sulphate 5,635 t Copper Sulphate 1,544 t Lithium Sulphate 2,020 t Nickel Sulphate
Life of Plant (LOP)	10 years
Life of Plant (LOM) Revenue	US\$ 850 million
Pre-tax Cashflow	US\$ 502 million
Pre-tax NPV (12% discount rate)	US\$ 220 million
Average Net Operating Cost of recovered cobalt as cobalt sulphate excluding by-product credits	US\$6.65/lb (US\$14.65/kg)
Total initial capital costs	US\$66 million
Payback of capital costs	<2 years

Source: NMT



Vanadium Recovery, 50/50 JV - Finland and Sweden

The project is to recover vanadium from steel making by-products. NMT is in JV with Critical Metals Ltd (“Critical”, an unlisted company in which NMT is a 18% shareholder). The project is at the PFS stage with a pilot plant under construction. The JV has a 10 year slag purchase agreement for 200ktpa from leading Scandinavian steel maker - SSAB. Production is expected to be 12.12m lbs pa of high purity (+99.5%) V2O5 and opex US\$3.92/lb.

Scoping study capex is US\$159m (100%). The PFS is expected by June.

Our model assumes V2O5 prices near US\$7/lb, similar to spot prices for high grade product in Europe. As a reminder, the 2019 spike was near US\$35/lb for 98% purity in China.

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Figure 2 - Aerial schematic showing location for the proposed VRF processing plant at Tahkoluoto port, Pori, Finland



Source: Asian Metals

LiOH Refinery, 50/50 JV - India

NMT has a right to 57ktpa of 6% Li₂O spodumene from Mt Marion. The business plan entails building a LiOH refinery in India. The project is pre completion of a feasibility study. We assume capex of at US\$300m for 20kt and cash costs of US\$7.8k. Current timetable is for fid in 2023.

The project is in 50:50 JV partner Manikaran Power (leading Indian power trading company)

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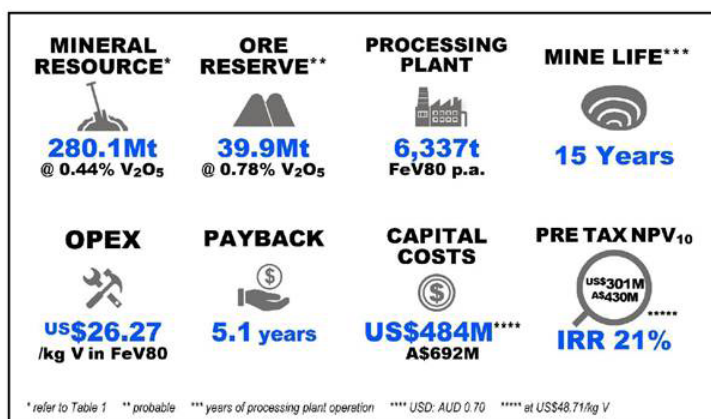
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Barrambie, 100% - Western Australia

Barrambie is a large titanium and vanadium project. The company has completed a DFS on a vanadium only operation (May 2019), and is considering a staged capex light construction to begin this year (based on mining and gravity concentration to generate a ilmenite (titanium) and vanadium rich magnetite product for export), pending finance and offtake. The project is on a granted mining lease with EPA approval. We attribute a nominal value (A\$25m) pending offtake and financing solution. Neometals has a collaboration agreement with leading Chinese research institute IMUMR and we await clarity on development plans between them. Our estimate is an 'attributed value' that the market may place on the asset given the other assets in the NMT portfolio. It is not an estimate of what the project is actually worth. The Company estimated NPV10 is US\$301m. The current plan is to move to a capital light DSO/beneficiation project. The NPV10 is likely to be lower, but the risks of execution and the capital requirement should also be significantly lower.



Global Mineral Resource as at 17 April 2018 ¹			
Classification	Tonnes (M)	TiO ₂ (%)	V ₂ O ₅ (%)
Indicated	187.1	9.61	0.46
Inferred	93.0	8.31	0.40
Total	280.1	9.18	0.44

High Grade V ₂ O ₅ Mineral Resource at (0.5% V ₂ O ₅ cut-off) ²			
Classification	Tonnes (M)	TiO ₂ (%)	V ₂ O ₅ (%)
Indicated	49.0	16.93	0.82
Inferred	15.9	16.81	0.81
Total	64.9	16.90	0.82

High Grade TiO ₂ Mineral Resource at (14% TiO ₂ cut-off) ²			
Classification	Tonnes (M)	TiO ₂ (%)	V ₂ O ₅ (%)
Indicated	39.3	21.18	0.65
Inferred	14.3	21.15	0.58
Total	53.6	21.17	0.63

¹ Based on Cut-off grade of 0.06% TiO₂ or 0.25% V₂O₅

Barrambie Project Ore Reserve Estimate 22 May 2019 ²			
Ore Reserve Category	Ore Tonnes (M)	V ₂ O ₅ (%)	TiO ₂ (%)
Probable	39.9	0.78	15.1

Cut-off based on 0.6% V₂O₅ cut-off (prior to dilution) and net value (revenue minus selling, processing, administration and incremental ore mining costs) > \$0t on a diluted block-by-block basis from the parameters used in the pit optimisation.

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Mt Edwards, 100% - Western Australia

Mt Edwards is a nickel development project. We attribute a nominal value (A\$25m) pending evaluation studies and a development pathway. Our estimate is an 'attributed value' that the market may place on the asset given the other assets in the NMT portfolio. It is not an estimate of what the project is actually worth. If it were divested into a single asset company, it is likely to be valued significantly better given peer comparison valuations of pure nickel companies.

MT EDWARDS MINERAL RESOURCE ESTIMATE

Nm

Competent Person attribution on Next page

Deposit	Indicated		Inferred		TOTAL Mineral Resources		
	Tonne (Kt)	Nickel (%)	Tonne (Kt)	Nickel (%)	Tonne (Kt)	Nickel (%)	Nickel Tonnes
Widgie 3 ²			625	1.5	625	1.5	9,160
Gillett ⁵			1,306	1.7	1,306	1.7	22,500
Widgie Townsite ²	2,193	1.9			2,193	1.9	40,720
Munda ³			320	2.2	320	2.2	7,140
Mt Edwards 26N ²			575	1.4	575	1.4	8,210
132N ⁶	34	2.9	426	1.9	460	2.0	9,050
Cooke ¹			150	1.3	150	1.3	1,950
Armstrong ⁴	526	2.1	107	2.0	633	2.1	13,200
McEwen ¹			1,070	1.3	1,070	1.3	13,380
McEwen Hangingwall ¹			1,060	1.4	1,060	1.4	14,840
Zabel ¹			330	1.8	330	1.8	5,780
TOTAL	2,753	1.9	5,969	1.5	8,722	1.7	146,000

Mineral Resources quoted using a 1% Ni block cut-off grade, except Munda at 1.5% Ni.
 Note: 1 refer announcement ASX: NMT 19 April 2018 titled: Mt Edwards JORC Code (2012 Edition) Mineral Resource 48,200 Nickel Tonnes
 Note: 2 refer announcement ASX: NMT 25 June 2018 titled: Mt Edwards Project Mineral Resource Over 120,000 Nickel Tonnes
 Note: 3 refer announcement ASX: NMT 13 November 2019 titled Additional Nickel Mineral Resource at Mt Edwards
 Note: 4 refer announcement on the ASX: NMT 16 April 2020 titled 60% Increase in Armstrong Mineral Resource
 Note: 5 refer announcement on the ASX: NMT 26 May 2020 titled Increase in Mt Edwards Nickel Mineral Resource
 Note: 6 refer announcement on the ASX: NMT 6 October 2020 titled 132N Nickel Mineral Resource and Exploration Update at Mt Edwards

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Price Target

We have a price target of \$0.88, which is a blend of several scenarios.

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	50%	\$0.97	\$1.05
1.5x NAV	15%	\$1.45	\$1.58
NPV at spot commodity and fx prices	5%	\$1.21	\$1.31
NPV5	1%	\$4.56	\$5.02
Grossed up dividend yield of 6.0%	1%	\$0.00	\$0.00
Net cash	28%	\$0.13	\$0.00
Risk weighted composite		\$0.85	
12 Months Price Target		\$0.88	
Shareprice - Last		\$0.350	
12 mth total return (% to 12mth target + dividend)		150.7%	

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Financial Statements	2022f	2023f	2024f	2025f
Revenue	0.0	0.0	120.1	120.1
Total Costs	-10.2	-8.2	-74.4	-72.4
EBITDA	-10.2	-8.2	45.6	47.8
margin	-	-	38%	40%
- LIB Batt. Recyl.	0.0	0.0	35.0	35.1
- Scand. Vanadium	0.0	0.0	14.7	14.7
- LiOH Refinery	0.0	0.0	0.0	0.0
- Barrambie	0.0	0.0	0.0	0.0
- Overheads	-10.2	-8.2	-4.1	-2.0
D&A	-4.2	-7.2	-9.6	-12.1
EBIT	-14.4	-15.4	36.0	35.7
Net Interest	-0.6	-4.0	-5.6	-7.4
Pre-Tax Profit	-15.0	-19.3	30.5	28.3
Tax Expense	0.0	0.0	0.0	0.0
Normalised NPAT	-10.8	-13.9	21.9	20.3
Abnormal Items	-4.2	-5.4	8.5	7.9
Reported Profit	-15.0	-19.3	30.5	28.3
Minority	0.0	0.0	0.0	0.0
Profit Attrib	-15.0	-19.3	30.5	28.3
DPS	0.0	0.0	0.0	0.0
Cash flow (A\$m)	2022f	2023f	2024f	2025f
Cash	71.0	28.2	14.6	43.7
Other Current Assets	1.2	1.2	16.0	16.0
Total Current Assets	72.1	29.4	30.6	59.7
Property, Plant & Equip.	77.1	150.2	188.3	287.1
Exploration	44.1	44.1	44.1	44.1
Investments/other	9.7	9.7	9.7	9.7
Tot Non-Curr. Assets	130.8	204.0	242.0	340.9
Total Assets	203.0	233.4	272.7	400.6
Short Term Borrowings	-	-	-	-
Other	3.0	2.8	11.6	11.3
Total Curr. Liabilities	3.0	2.8	11.6	11.3
Long Term Borrowings	100.0	150.0	150.0	250.0
Other	2.0	2.0	2.0	2.0
Total Non-Curr. Liabil.	102.0	152.0	152.0	252.0
Total Liabilities	105.1	154.8	163.6	263.4
Net Assets	97.9	78.6	109.0	137.3
Net Debt (pre AASB16)	29	122	135	206
Net Debt (post AASB16)	30	123	137	207
Balance Sheet (\$m)	2022f	2023f	2024f	2025f
Pro-forma EBITDA	-10.2	-8.2	45.6	47.8
Working Capital	-0.3	-0.3	-6.0	-0.3
Cash retained in JV	0.0	0.0	0.0	0.0
Operating Cashflow	-10.6	-8.4	39.7	47.5
Income Tax Paid	0.0	0.0	0.0	0.0
Interest & Other	-0.6	-4.0	-5.6	-7.4
Operating Activities	-11.1	-12.4	34.1	40.1
Property, Plant & Equip.	-81.6	-80.3	-47.7	-111.0
Exploration and Devel.	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investment Activities	-81.6	-80.3	-47.7	-111.0
Borrowings	100.0	50.0	0.0	100.0
Equity or "tbc capital"	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Financing Activities	100.0	50.0	0.0	100.0
Net Cashflow	7.3	-42.8	-13.6	29.1
LIB Production (100%)	2022f	2023f	2024f	2025f
Throughput	-	-	18.25	18.25
- Production	-	-	-	-
- Li Sulphate	-	-	1.3	1.3
- Co Sulphate	-	-	5.0	5.0
- Ni Sulphate	-	-	1.8	1.8
- Copper	-	-	4.6	4.6
Capex	-71	-71	0	0
LiOH Refinery (100%)	2022f	2023f	2024f	2025f
LiOH	0	0	0	0
Cash Costs	-	-	-	-
Capex	0	0	0	-150
Scandinavian Vanadium (100%)	2022f	2023f	2024f	2025f
V2O5	0.0	0.0	11.5	11.5
Cash Costs	0.0	0.0	-5.1	-5.1
Capex	-81	-81	-81	0
Valuation			A\$m	A\$/shr
50% LIB 20ktpa- Germany (pre-tax NPV@12%)			134	0.24
50% LIB +150ktpa- Germany (pre-tax NPV@12%)			471	0.86
50% Vanadium Slag - Scandinavia (pre-tax NPV@10%)			25	0.05
50% LiOH Refinery - India (pre-tax NPV@14%)			6	0.01
100% Barrambie - Notional Value			25	0.05
100% Mt Edwards - Notional Value			25	0.05
Other Assets/Exploration			8	0.01
Forwards			0	0.00
Corporate Overheads			-68	-0.12
Net Cash (Debt)			73	0.13
AASB16 Debt			0	0.00
Investments			0	0.00
Tax (NPV future liability)			-167	-0.30
Options & Other Equity			0	0.00
Total			532	0.97
Price Assumptions	2022f	2023f	2024f	2025f
AUDUSD	0.75	0.74	0.74	0.74
Spodumene - Chemical (ie Battery)	480	540	575	600
LiOH	10170	10300	10300	10300
LC	10170	10300	10300	10300
Nickel	8.5	8.3	8.0	8.0
Copper	3.5	3.3	3.0	3.0
Cobalt	20	20	20	20
V2O5	7.0	7.0	7.0	7.0
Other Information				
Estimated free float:				91.5%
12-mth High/Low (A\$/sh)			\$0.425 - \$0.118125	
Average daily volume (A\$m)				0.3
ASX Code				NMT
Next result				Aug-21
Company Description				
Very advanced lithium battery recycling project in Europe.				

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