

Boab Metals Ltd (BML)

Rating: Buy | Risk: High | Price Target: \$1.02

Expanded Resource to underpin Sorby Hills DFS

Key Information

Current Price (\$ps)	0.29
12m Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.28 - 0.57
Target Price Upside (%)	252.6%
TSR (%)	252.6%
Reporting Currency	AUD
Market Cap (\$m)	44
Sector	Materials
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0%

Fundamentals

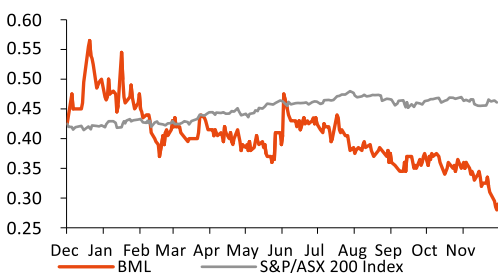
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	0	209
NPAT (\$m)	(5)	(6)	(3)	52
EPS (cps)	(0.3)	(3.0)	(1.2)	23.0
EPS Growth (%)	nm	nm	60.9%	nm
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	100%	100%	100%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	nm	(9.7)	(24.7)	1.3
EV/EBITDA (x)	(8.3)	(10.3)	(20.7)	0.4
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(15.4%)	(21.8%)	(20.5%)	(36.7%)
Absolute (%)	(17.1%)	(22.7%)	(22.7%)	(27.5%)
Benchmark (%)	(1.7%)	(0.9%)	(2.2%)	9.2%



Price performance indexed to 100

Source: FactSet

Major Shareholders

Villiers Queensland	10.6%
Zero Nominees	8.4%
Board and Management	4.0%
Citicorp Nominees	3.5%
Brent Connolly	2.9%

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Event

Boab Metals has announced a Mineral Resource update for its 75% owned Sorby Hills Lead-Silver-Zinc Project located in the Kimberley (WA). The update incorporates results of the Phase IV and Phase V drilling programs and will underpin the Sorby Hills Definitive Feasibility Study (DFS) Mining Inventory.

Key features of the upgrade include Measured and Indicated Resources to 23.6Mt at 4.6% Pb Eq (3.5% Pb, 39g/t Ag) and 0.4% Zn containing 0.8Mt Pb, 0.1kt Zn and 30Moz Ag. This represents a 14% increase versus the PFS Resource, and a 7% increase versus the April 2021 MRE. The upgrade includes Measured Resources +5.6Mt (+78%) to 12.8Mt.

In our view the increase in Resource quantity and confidence is expected to have a positive impact on the Sorby Hills Ore Reserve and DFS. We believe it's likely BML examines the possibility of increasing the processing plant capacity at Sorby Hills to reduce unit operating costs and enhance project value. The Definitive Feasibility Study is due 1Q22.

Highlights

- In August 2020, Boab Metals released the results of a Sorby Hills Pre-Feasibility Study (PFS). The PFS outlined a A\$183m project mining 1.5Mtpa of ore and producing 78ktpa of a lead/silver concentrate over a 10-year mine life. The annual production of contained metals is expected to be ~50ktpa of lead and 1.5Mozpa of silver.
- The PFS resulted in an estimated pre-tax NPV of A\$303M (at an 8% discount rate) and an IRR of 46% (assuming 10-year historical average prices of US\$0.95/lb lead and US\$21/oz silver). Our post-tax NPV of A\$225m is lower than the PFS, mainly due to a higher WACC assumption of 10%.
- On our financial model we value Boab's 75% share of Sorby Hills at \$168m (10% discount rate, post tax). We have modelled an expanded case where Boab adds crushing/milling capacity to take the concentrator to 2mtpa throughput from year three as the grade declines. In this scenario our valuation (75%) increases to A\$202m, and additional production increases EBITDA in years 3/4/5 of the project by A\$20m/A\$26m/A\$41m respectively.
- BML is progressing to a Definitive Feasibility Study (DFS) in anticipation of a Final Investment Decision in early 2022, a 12-18-month construction period and first production in mid-2023.
 - In our view it's likely the existing Sorby Hills Reserve will be upgraded in the DFS given today's substantial Resource upgrade, which includes +5.6Mt (+78% to 12.8Mt) to the Measured Resources and +7% to the Measured + Indicated Resources (to 23.6Mt). The existing Reserve sits at 13.6Mt at 3.6% Pb for 490kt of lead and at 40g/t Ag for 18 Moz of silver.
 - In our view the increase in Resource quantity and confidence is expected to have a positive impact on the Sorby Hills Ore Reserve and DFS. We believe it's likely BML examines the possibility of increasing the processing plant capacity at Sorby Hills to reduce unit operating costs and enhance project value.

Recommendation

We retain our BUY recommendation and our \$1.02ps target price. In our view there are limited opportunities to gain exposure to lead-silver developers on the ASX and Boab Metals appears attractive. Compared to peers (i.e. Galena's Abra project), the Sorby Hills resource is higher grade for silver, is shallower and suitable for open cut mining, and is closer to export facilities.

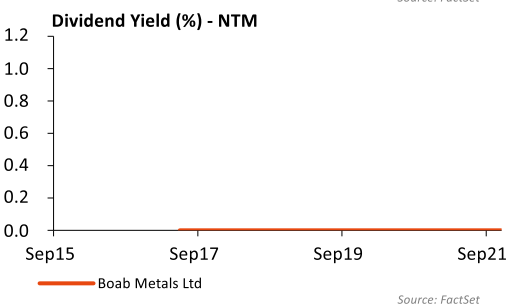
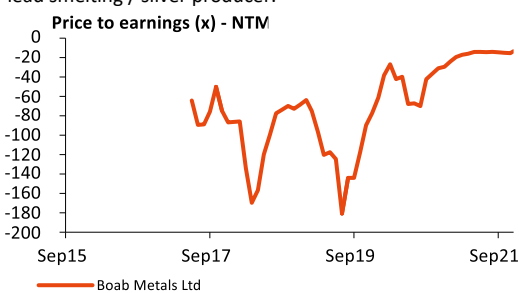
Boab Metals Ltd
Materials
Materials

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.29
Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.28 - 0.57
Shares on Issue (m)	152
Market Cap (\$m)	44
Enterprise Value (\$m)	41
TSR (%)	252.6%

Company Description

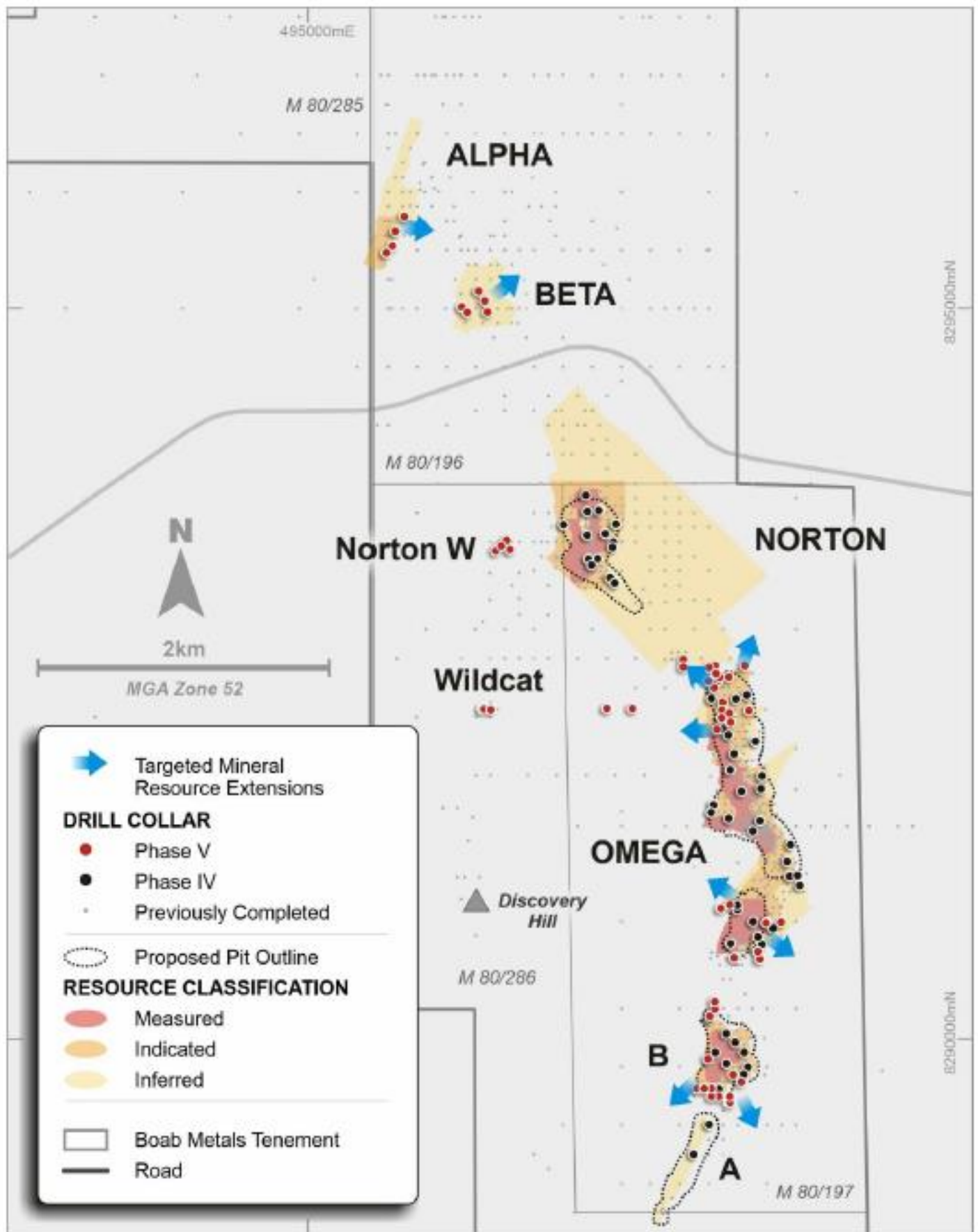
Boab Metals is a base metal exploration and development company, primarily focused on its flagship Sorby Hills Project in Kununurra, Western Australia. The flagship Project is the largest undeveloped, near surface lead-silver-zinc deposit in Australia. Sorby Hills is 75%-owned by Boab Metals and 25% owned by Henan-Yuguang - China's largest lead smelting / silver producer.



Financial Year End: 30 June

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(0.1)	(0.3)	(3.0)	(1.2)	23.0
EPS (Underlying) (cps)	(0.1)	(0.3)	(3.0)	(1.2)	23.0
EPS (Underlying) Growth (%)	42.3%	nm	nm	60.9%	nm
PE (Underlying) (x)	nm	nm	(9.7)	(24.7)	1.3
EV / EBIT (x)	(13.1)	(8.2)	(10.3)	(20.7)	0.4
EV / EBITDA (x)	(13.1)	(8.3)	(10.3)	(20.7)	0.4
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	100%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(0.6%)	(0.7%)	(132.7%)	(143.5%)	142.9%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	0	209
Other Operating Income	0	0	0	0	0
EBITDA	(3)	(5)	(4)	(2)	113
EBITDA Margin (%)	nm	nm	nm	nm	53.8%
Depreciation & Amortisation	0	(0)	0	0	(12)
EBIT	(3.2)	(5.1)	(4.0)	(2.0)	101.1
EBIT Margin (%)	nm	nm	nm	nm	48.3%
Net Interest	0	0	(2)	(1)	(2)
Pretax Profit	(3)	(5)	(6)	(3)	99
Minorities	0	0	0	0	17
NPAT Underlying	(3)	(5)	(6)	(3)	52
Significant Items	0	0	0	0	0
NPAT Reported	(3)	(5)	(6)	(3)	52
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(3)	(5)	(4)	(2)	101
Tax Paid	0	0	0	0	0
Net Interest	0	0	(2)	(1)	(2)
Change in Working Capital	0	0	0	0	(1)
Depreciation & Amortisation	0	(0)	0	0	(12)
Other	(0)	0	2	4	3
Operating Cashflow	(3)	(5)	(4)	1	113
Capex	0	0	(69)	(95)	(19)
Acquisitions and Investments	0	(0)	(2)	(1)	(1)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	(0)	0	17	24	5
Investing Cashflow	(0)	(0)	(54)	(72)	(15)
Free Cashflow	(3)	(5)	(73)	(94)	94
Equity Raised / Bought Back	5	14	50	0	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	100	0	(25)
Other	(0)	(0)	(2)	(4)	(3)
Financing Cashflow	4	14	148	(4)	(28)
Net Change in Cash	1	10	91	(75)	69
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	3	13	103	29	98
Accounts Receivable	0	0	0	0	0
Inventory	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE	5	5	76	172	181
Total Assets	8	19	180	201	278
Accounts Payable	0	1	1	1	0
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	100	100	75
Total Liabilities	1	2	102	102	105
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(44.9%)	(41.0%)	(14.5%)	(4.4%)	61.3%
Gearing (%)	(58.5%)	(311.2%)	(5.8%)	55.0%	(25.6%)
Net Debt / EBITDA (x)	0.9	2.6	0.8	(35.8)	(0.2)

Figure 1: Sorby Hills – Surface projection of Mineral Resource block model coloured by classification. Red = Measured, Orange= Indicated, Yellow = Inferred. Drill collars as used in the Mineral Resource Estimate



Source: Boab Metals ASX release 17 December 2021

Figure 2: Updated Sorby Hills Mineral Resource Estimate
Pb Domains only

Classification by Deposit	Mt	Grade				Contained Metal			
		Pb	Zn	Ag	Pb Eq.	Pb	Zn	Ag	Pb Eq.
		%	%	g/t	%	kt	kt	koz	kt
A									
Inferred	0.6	5.3%	1.0%	23	6.0%	31	6	427	35
Sub Total	0.6	5.3%	0.1%	23	6.0%	31	6	427	35
B									
Measured	1.4	3.8%	0.3%	19	4.3%	52	4	859	60
Indicated	1.3	3.4%	0.3%	21	4.0%	44	4	862	52
Sub Total	2.7	3.6%	0.3%	20	4.2%	97	8	1,720	112
Omega									
Measured	8.5	3.3%	0.4%	37	4.3%	279	32	9,995	366
Indicated	5.8	3.5%	0.4%	34	4.4%	205	25	6,331	259
Inferred	2.9	2.7%	0.4%	26	3.4%	76	13	2,414	97
Sub Total	17.2	3.3%	0.4%	34	4.2%	566	71	18,948	730
Norton									
Measured	2.8	4.1%	0.3%	75	6.2%	112	9	6,668	170
Indicated	2.1	3.2%	0.5%	38	4.3%	68	11	2,617	91
Inferred	16.2	2.5%	0.5%	27	3.2%	402	75	14,039	523
Sub Total	21.1	2.8%	0.4%	34	3.8%	590	96	24,090	799
Alpha									
Indicated	0.7	2.6%	0.5%	41	3.8%	18	4	923	26
Inferred	0.8	3.6%	1.2%	86	6.0%	27	9	2,052	44
Sub Total	1.5	3.1%	0.9%	64	4.9%	45	13	2,975	71
Beta									
Indicated	1.0	4.1%	0.2%	42	5.3%	42	2	1,382	54
Inferred	3.2	3.4%	0.4%	43	4.6%	109	14	4,474	148
Sub Total	4.2	3.6%	0.4%	43	4.8%	151	17	5,856	202
Total Resource									
Measured	12.6	3.5%	0.4%	43	4.7%	444	45	17,521	596
Indicated	11.0	3.4%	0.4%	34	4.4%	377	46	12,114	482
Inferred	23.6	2.7%	0.5%	31	3.6%	645	117	23,406	848
Total	47.3	3.1%	0.4%	35	4.1%	1,465	207	53,042	1,925

Note: Tonnes and Grade are rounded. Reported at a 1.0% Pb Cut-Off.
Discrepancy in calculated Contained Metal is due to rounding.
See Appendix 2 for Lead Equivalent calculation method.
Lead Equivalent calculation excludes Zinc.

Source: Boab Metals ASX release 17 December 2021

Figure 3: Sorby Hills Mineral Resource Estimate - Alpha Deposit
Zn Domains only

Classification by Deposit	Mt	Pb %	Zn %	Ag g/t	Pb kt	Zn kt	Ag koz
Alpha							
Indicated	2.1	0.3	2.8	22	6	59	1,485
Inferred	2.1	0.4	2.3	21	8	48	1,418
Sub Total	4.2	0.5	2.5	22	15	107	2,971

Note: Tonnes and Grade are rounded. Reported at a 1.0% Pb Cut-Off.
Discrepancy in calculated Contained Metal is due to rounding.

Source: Boab Metals ASX release 17 December 2021

Key risks

- The prices of silver and lead are volatile and difficult to forecast. The actual prices may differ substantially from our forecasts.
- The Sorby Hills project is not yet producing and there is a risk that Boab is unable to bring the operation in to production. The project may cost more than expected to build and may not operate as expected.
- Boab requires around \$150m of new capital to finance its 75% share of the Sorby Hills Project. There is a risk that capital markets are not willing to fund the project.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If Boab's costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart the company, then it could delay projects or exacerbate operational risks.

Core drivers and catalyst

- In August 2020, Boab released the results of a Sorby Hills Pre-Feasibility Study (PFS). The PFS outlined a A\$183m project mining 1.5Mtpa of ore and producing 78ktpa of a lead/silver concentrate over a 10-year mine life. The annual production of contained metals is expected to be ~50ktpa of lead and 1.5Mozpa of silver.
- The PFS resulted in an estimated pre-tax NPV of A\$303M (at an 8% discount rate) and an IRR of 46% (assuming 10-year historical average prices of US\$0.95/lb lead and US\$21/oz silver). Our post-tax NPV of A\$225m is lower than the PFS, mainly due to a higher WACC assumption of 10%.
- On our financial model we value Boab's 75% share of Sorby Hills at \$168m (10% discount rate, post tax). We have modelled an expanded case where Boab adds crushing/milling capacity to take the concentrator to 2mtpa throughput from year three as the grade declines. In this scenario our valuation (75%) increases to A\$202m, and additional production increases EBITDA in years 3/4/5 of the project by A\$20m/A\$26m/A\$41m respectively.
- BML is progressing to a Definitive Feasibility Study (DFS) in anticipation of a Final Investment Decision in early 2022, a 12-18-month construction period and first production in mid-2023.
 - In our view it's likely the existing Sorby Hills Reserve will be upgraded in the DFS given today's substantial Resource upgrade, which includes +5.6Mt (+78% to 12.8Mt) to the Measured Resources and +7% to the Measured + Indicated Resources (to 23.6Mt). The existing Reserve sits at 13.6Mt at 3.6% Pb for 490kt of lead and at 40g/t Ag for 18 Moz of silver.
 - In our view the increase in Resource quantity and confidence is expected to have a positive impact on the Sorby Hills Ore Reserve and DFS. We believe it's likely BML examines the possibility of increasing the processing plant capacity at Sorby Hills to reduce unit operating costs and enhance project value.
- We model a further A\$150m of capital requirements to fund Boab's 75% share of pre-production capex, working capital and ongoing exploration. We expect BML to split the funding roughly A\$50m/A\$100m equity/debt. We forecast gearing to peak at 44% in FY23.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

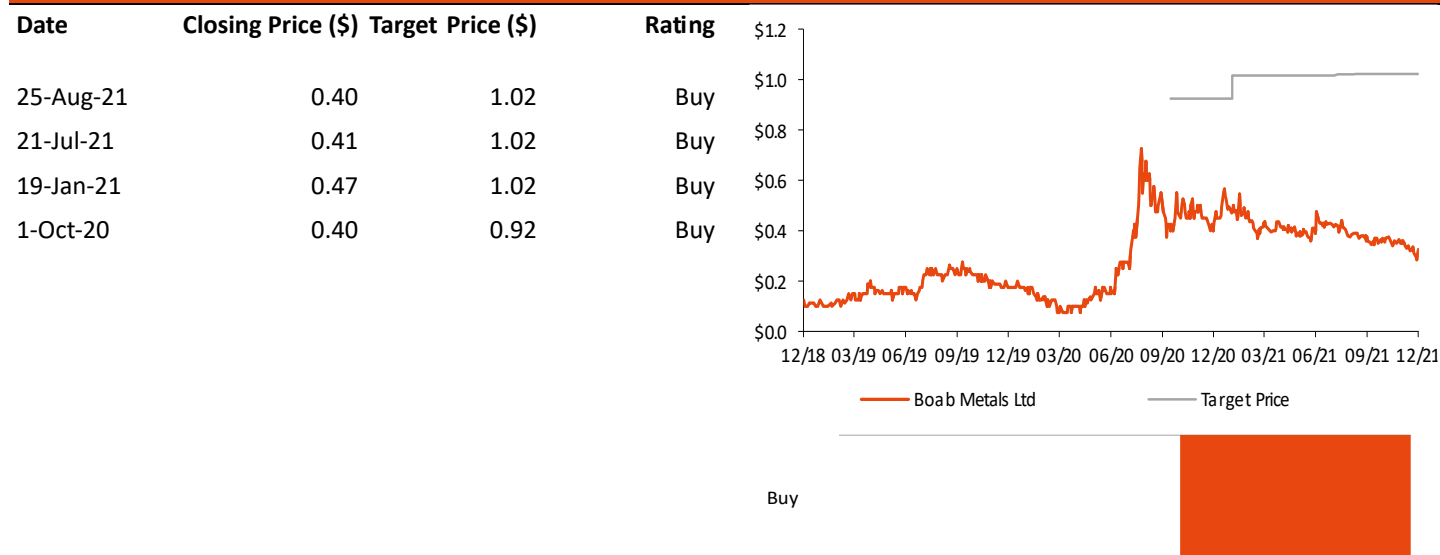
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	88	83%
Hold	17	16%
Sell	1	1%

History of Investment Rating and Target Price - Boab Metals Ltd



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