

Boab Metals Ltd (BML)

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

Sorby Hills – exceptional project economics

Key Information

Current Price (\$ps)	0.36
12m Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.28 - 0.55
Target Price Upside (%)	188.0%
TSR (%)	188.0%
Reporting Currency	AUD
Market Cap (\$m)	54
Sector	Materials
Avg Daily Volume (m)	0.6
ASX 200 Weight (%)	0%

Fundamentals

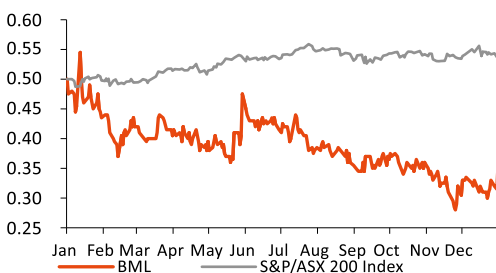
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	0	209
NPAT (\$m)	(5)	(6)	(3)	52
EPS (cps)	(0.3)	(3.0)	(1.2)	23.0
EPS Growth (%)	nm	nm	60.9%	nm
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	100%	100%	100%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	nm	(11.8)	(30.3)	1.5
EV/EBITDA (x)	(10.3)	(12.9)	(25.8)	0.5
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 (%)	15.7%	(0.7%)	(1.7%)	(32.9%)
Absolute (%)	16.4%	(1.4%)	(2.7%)	(24.5%)
Benchmark (%)	0.7%	(0.7%)	(1.0%)	8.4%



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 released its Dec-21 quarterly activities report with the main highlights being an updated Mineral Resource Estimate for Sorby Hills and metallurgical test results showing strong recoveries for lead and silver. A Definitive Feasibility Study (DFS) and final offtake agreements are expected this quarter, with debt financing to follow. The economics of the Sorby Hill project are exceptional – and likely to improve with the DFS.

Highlights

- Boab Metals is developing the Sorby Hills Lead-Silver Project in the Kimberley Region of Western Australia. Boab holds a 75% interest in the Sorby Hills JV with China's largest lead smelting and silver producer Henan Yuguang holding 25%.
- In August 2020 Boab released the results 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 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).
- The key highlight from the quarter was an upgrade of the 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.
- Boab also completed its metallurgical testwork during the quarter. The floatation testwork demonstrated strong recoveries for silver and lead in both the fresh and oxidised ore (~80-95%) and demonstrated that recoveries will be improved by batch processing of the different ore types. This is likely to see an improvement in the economics outlined in the PFS.
- 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 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.
- The next steps for the project include the completion of the Process Plant design, completion of binding offtake agreements, completing a Definitive Feasibility Study (all expected this quarter). Followed by finalisation of the debt financing package and a Final Investment Decision in 2Q/3Q 2022.
- Offtake agreements are expected to be straightforward, with Sorby Hills expected to produce a high-quality lead/silver concentrate into a relatively tight market. Boab's Chinese JV partner has indicated that it would take all of the product, but Boab is likely to diversify the offtakes.
- The debt financing is expected to be provided by the Northern Australia Infrastructure Facility (NAIF), augmented by standard commercial debt. We note that representatives from NAIF and the commercial lenders were on site for a project tour in the quarter.

Recommendation

We retain our Buy recommendation and price target of A\$1.02ps. The project economics for Sorby Hills are exceptional and are likely to improve in the DFS. The project will generate >\$100m of EBITDA per annum, and yet Boab Metals only has a market capitalisation of A\$54m. The stock is materially undervalued and should re-rate in 1H22 as the DFS, offtakes and financing milestones are achieved.

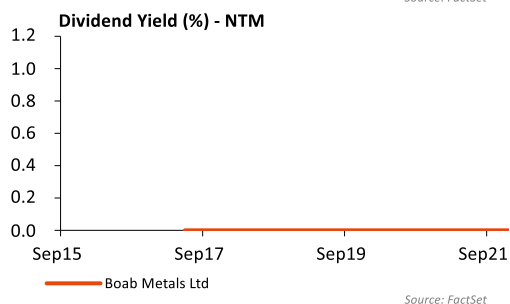
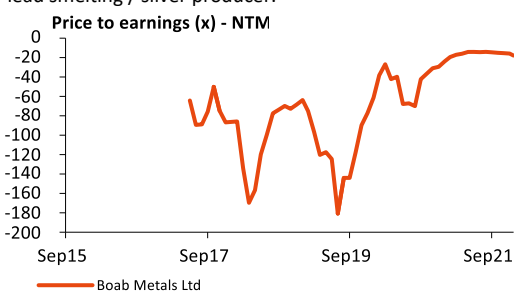
Boab Metals Ltd
Materials
Materials

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.36
Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.28 - 0.55
Shares on Issue (m)	153
Market Cap (\$m)	54
Enterprise Value (\$m)	52
TSR (%)	188.0%

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	(11.8)	(30.3)	1.5
EV / EBIT (x)	(16.3)	(10.2)	(12.9)	(25.8)	0.5
EV / EBITDA (x)	(16.4)	(10.3)	(12.9)	(25.8)	0.5
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%)	(108.4%)	(117.2%)	116.8%
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)

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\$189m is lower than the PFS, mainly due to a higher WACC assumption of 10%.
- Boab is progressing to a Definitive Feasibility Study (DFS) and is conducting additional exploration and Resource definition drilling in anticipation of a Final Investment Decision in late 2021, a 12-18-month construction period and first production in mid-2023.
- The Sorby Hills Measured and Indicated Resources is 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. The resource is likely to increase as further drilling and regional exploration is completed.
- 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

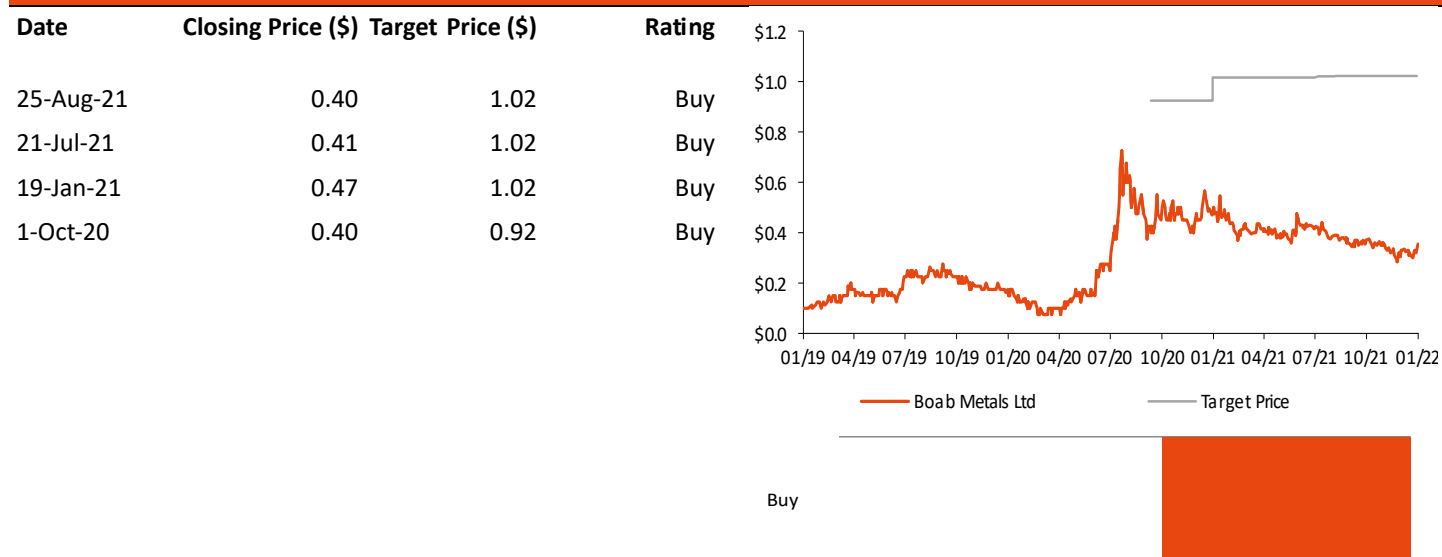
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	87	82%
Hold	18	17%
Sell	1	1%

History of Investment Rating and Target Price - Boab Metals Ltd



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