

Boab Metals Ltd (BML)

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

Sorby Hills expansion under investigation; Phase V drilling to commence shortly

Key Information

Current Price (\$ps)	0.45
12m Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.08 - 0.73
Target Price Upside (%)	128.3%
TSR (%)	128.3%
Reporting Currency	AUD
Market Cap (\$m)	68
Sector	Materials
Avg Daily Volume (m)	0.3
ASX 200 Weight (%)	0%

Fundamentals

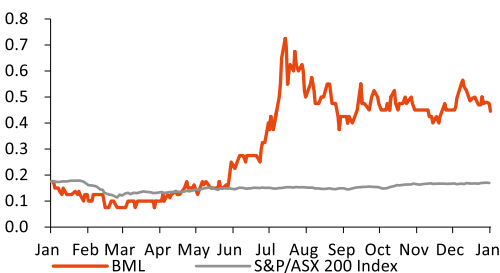
YE 30 Jun (AUD)	FY20A	FY21E	FY22E	FY23E
Sales (\$m)	0	0	0	0
NPAT (\$m)	(3)	(4)	(6)	(3)
EPS (cps)	(0.1)	(0.3)	(3.0)	(1.4)
EPS Growth (%)	42.3%	nm	nm	51.7%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	100%	100%

Ratios

YE 30 Jun	FY20A	FY21E	FY22E	FY23E
P/E (x)	nm	nm	(15.0)	(31.1)
EV/EBITDA (x)	(20.6)	(16.2)	(16.2)	(32.5)
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 (%)	(2.8%)	(3.8%)	(18.2%)	157.4%
Absolute (%)	(1.1%)	(1.1%)	(6.3%)	154.3%
Benchmark (%)	1.7%	2.7%	11.9%	(3.1%)



Price performance indexed to 100

Source:

Major Shareholders

Villiers Queensland Pty Ltd.	10.6%
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Event

Boab Metals has outlined plans for a Phase V drilling program at its flagship Sorby Hills Project. The ~6,000m drilling program is scheduled to commence in April. The key objectives include (1) materially increasing mining inventory, and (2) investigating processing plant capacity expansion. In our view BML is well-funded (net cash A\$14.9m end Dec20q) to continue to execute workstreams towards a DFS and ultimately a Final Investment Decision 1H22.

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%. Boab recently released a Pre-Feasibility Study (PFS) and is conducting a Definitive Feasibility Study (DFS). Boab is conducting additional exploration and Resource definition drilling in anticipation of a Final Investment Decision 1H22, a 12-18-month construction period and first production in 2H23.
- The company recently completed its Phase IV drilling program with 4,803m drilled. There were two objectives and BML appears to have achieved both;
 - Support metallurgical and geotechnical test work for the Definitive Feasibility Study (DFS), and
 - Expand the resource (scheduled 1Q21).
- Following the positive results from the Phase IV drilling programme, the company has unveiled plans for Phase V. BML plans to drill up to 6,000m from April 2021. The primary objectives are to:
 - Materially increase the mining inventory at Sorby Hills for immediate incorporation into the Definitive Feasibility Study mine plan, and
 - Investigate the potential to increase the processing plant capacity at Sorby Hills to reduce unit operating costs and enhance project value.
- The Phase V drilling programme will target:
 - Mineralisation adjacent current open pit designs identified during Phase IV, and
 - Regional prospects located over Eight Mile Creek, ~15km along strike of Sorby Hills.

Recommendation

We retain our Buy recommendation and price target of A\$1.02ps. Catalysts for the stock to reach our price target include: (1) Further Resource upgrades post ongoing drilling programs. (2) Delivery of the Sorby Hills Project through the course of FY21/22. (3) Resolution of financing options.

Milestone	Status	CY2021				CY2022	
		Q1	Q2	Q3	Q4	Q1	Q2
Pre Feasibility Study	✓						
Maiden Ore Reserve Estimate	✓						
Secure Funds to reach Decision to Mine	✓						
DFS Drilling Program & Interim MRE	Ongoing						
Resource Inventory Expansion Drilling + MRE	start Q2 2021						
Definitive Feasibility Study	Ongoing						
Permitting and Approvals	Ongoing						
Financing and Offtake Process	Ongoing						
Tendering and Contract Formation	start Q4 2021						
Decision to Mine Project Award	Q2 2021						

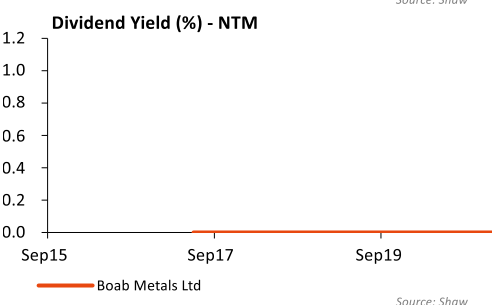
Boab Metals Ltd
Materials
Materials

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.45
Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.08 - 0.73
Shares on Issue (m)	152
Market Cap (\$m)	68
Enterprise Value (\$m)	65
TSR (%)	128.3%

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)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS (Reported) (cps)	(0.2)	(0.1)	(0.3)	(3.0)	(1.4)
EPS (Underlying) (cps)	(0.2)	(0.1)	(0.3)	(3.0)	(1.4)
EPS (Underlying) Growth (%)	(7.2%)	42.3%	nm	nm	51.7%
PE (Underlying) (x)	(71.9)	nm	nm	(15.0)	(31.1)
EV / EBIT (x)	(19.3)	(20.5)	(16.2)	(16.2)	(32.5)
EV / EBITDA (x)	(19.3)	(20.6)	(16.2)	(16.2)	(32.5)
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%	0%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(2.5%)	(0.6%)	(0.6%)	(113.7%)	(71.3%)
Profit and Loss (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	0	0	0	0	0
Other Operating Income	0	0	0	0	0
EBITDA	(3)	(3)	(4)	(4)	(2)
EBITDA Margin (%)	nm	nm	nm	nm	nm
Depreciation & Amortisation	0	0	0	0	0
EBIT	(3)	(3)	(4)	(4)	(2)
EBIT Margin (%)	nm	nm	nm	nm	nm
Net Interest	0	0	0	(2)	(1)
Pretax Profit	(3)	(3)	(4)	(6)	(3)
Minorities	0	0	0	0	0
NPAT Underlying	(3)	(3)	(4)	(6)	(3)
Significant Items	0	0	0	0	0
NPAT Reported	(3)	(3)	(4)	(6)	(3)
Cashflow (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	(3)	(3)	(4)	(4)	(2)
Tax Paid	0	0	0	0	0
Net Interest	0	0	0	(2)	(1)
Change in Working Capital	0	0	0	0	0
Depreciation & Amortisation	0	0	0	0	0
Other	1	(0)	0	2	4
Operating Cashflow	(3)	(3)	(4)	(4)	0
Capex	(3)	0	0	(95)	(76)
Acquisitions and Investments	0	0	(2)	(2)	(1)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	(0)	0	24	19
Investing Cashflow	(3)	(0)	(2)	(73)	(58)
Free Cashflow	(6)	(3)	(4)	(99)	(76)
Equity Raised / Bought Back	8	5	10	50	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	100	0
Other	(1)	(0)	0	(2)	(4)
Financing Cashflow	7	4	10	148	(4)
Net Change in Cash	1	1	4	71	(61)
Balance Sheet (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	2	3	7	78	16
Accounts Receivable	0	0	0	0	0
Inventory	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE	5	5	7	104	181
Total Assets	8	8	15	182	198
Accounts Payable	1	0	0	0	0
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	100	100
Total Liabilities	1	1	1	101	101
Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	(82.3%)	(44.9%)	(37.4%)	(16.2%)	(6.1%)
Gearing (%)	(35.6%)	(58.5%)	(100.5%)	27.8%	60.6%
Net Debt / EBITDA (x)	0.5	0.9	1.7	(5.6)	(41.8)

Figure 1: Sorby Hills drilling locations

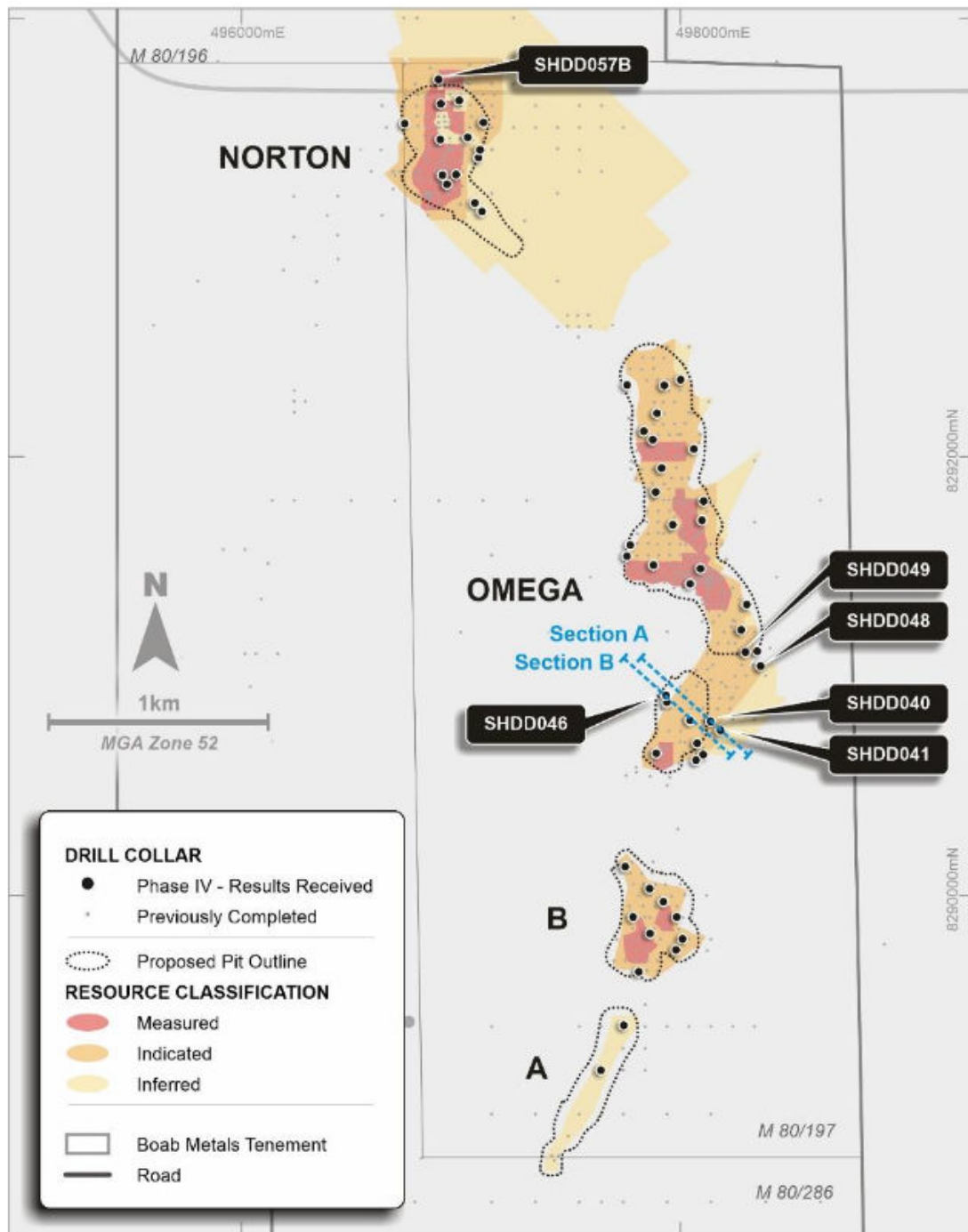


Figure 1: Location of Phase IV drill hole collars relative to the Sorby Hills Resource, previously completed drill hole locations and open pit design outlines. The map shows the locations of cross sections with geological interpretations based on core logging and results received.

Source: Boab Metals ASX release February 2020

Figure 2: Sorby Hills – B deposit cross section

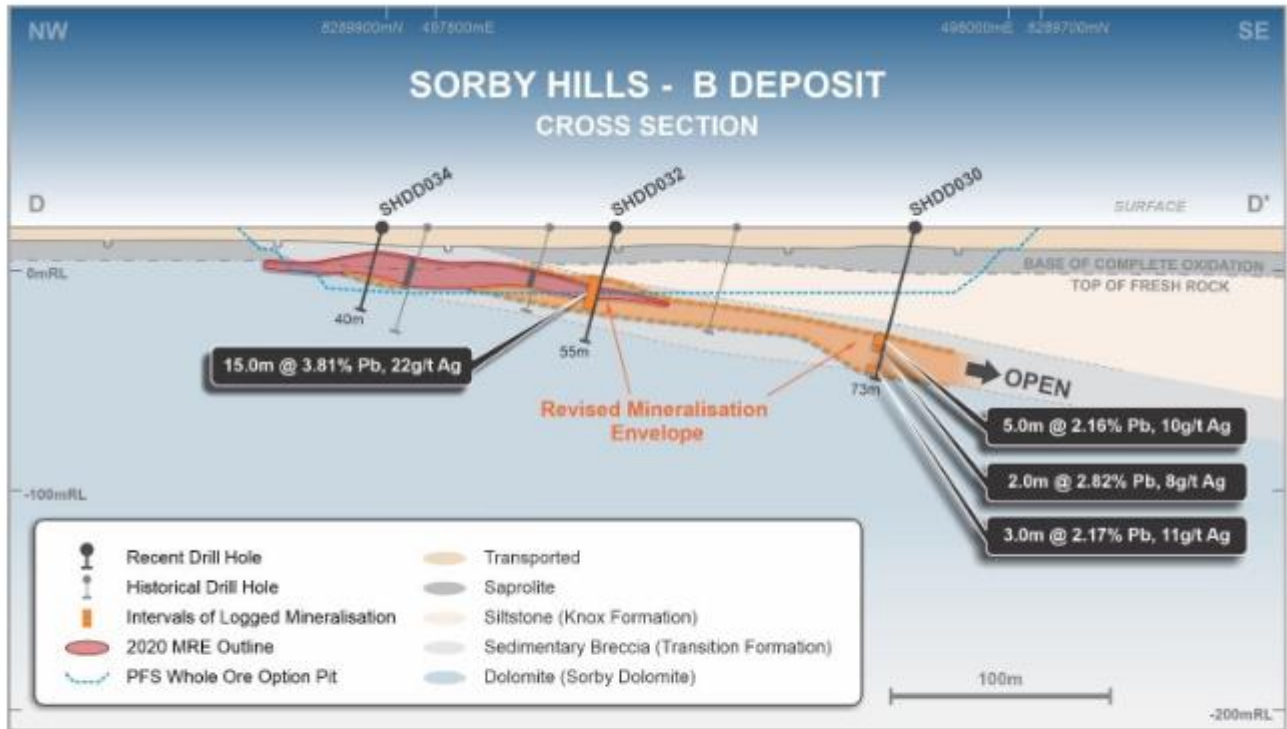


Figure 2: Cross section through the B Deposit showing intersected mineralisation and assay results in the newly completed drill holes SHDD030, SDDSH032 and SHDD034 relative to the current Resource envelope and open pit design.

Source: Boab Metals ASX release February 2021

Figure 3: Sorby Hills – Omega Deposit cross section

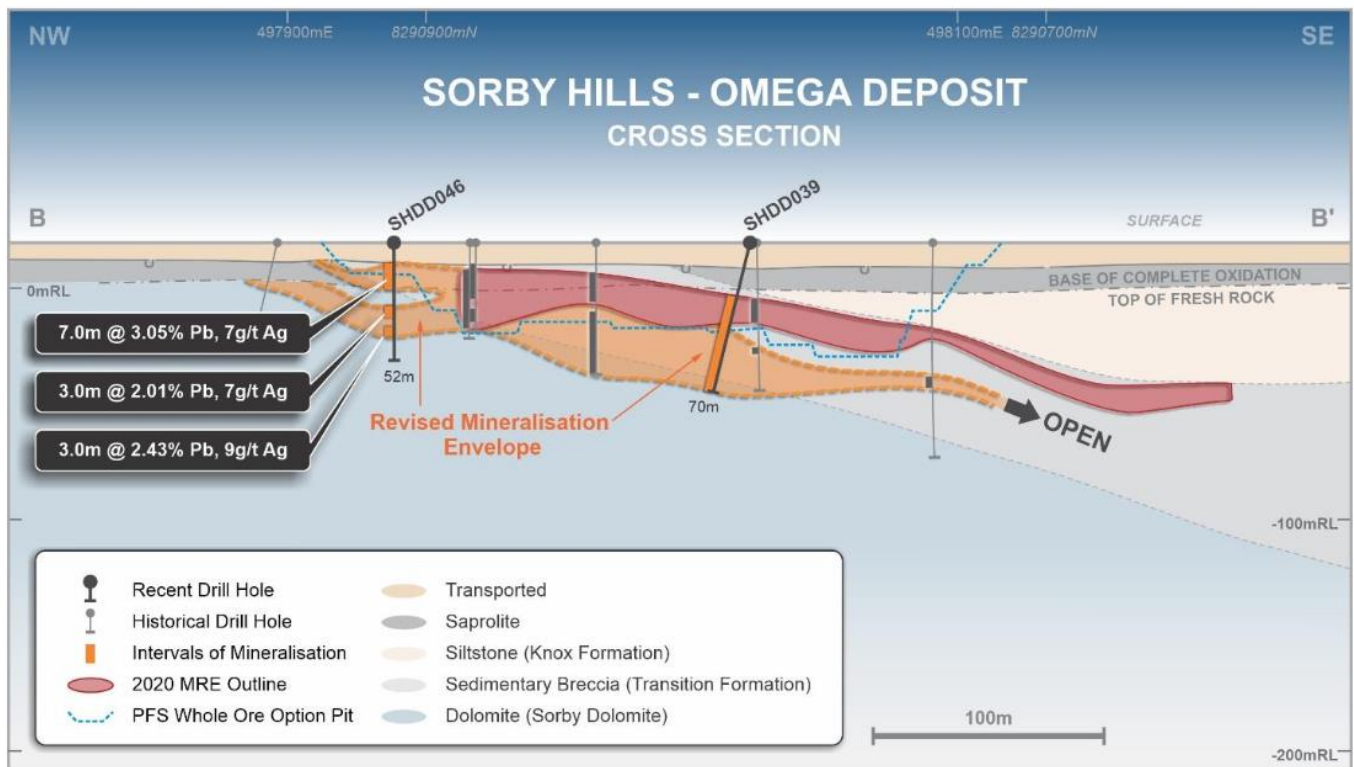


Figure 3: Cross section through the Omega Deposit showing the intersected mineralisation and composite assay results in SHDD046 in the area outside of the current resource and open pit design.

Source: Boab Metals ASX release January 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\$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 Reserve currently stands at 13.6Mt at 3.6% Pb for 490kt of lead and at 40g/t Ag for 18 Moz of silver. There is likely to be Reserve upside given;
 1. ~5Mt of Resource has been excluded from the PFS to ensure the Project does not step outside the existing Environmental Protection Authority (EPA) approved development zones.
 2. Boab has completed a 4,803m drilling campaign that included in-fill drilling of high-grade zones and targeted shallow extensions to presently defined mineralisation.
 3. Exploration upside in a license 100% held by Boab immediately to the south of the JV Project.
- 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 PMY 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.

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