

# Boab Metals Ltd (BML)

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

## Resource Update at Sorby Hills

### Key Information

Current Price (\$ps)	0.40
12m Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.08 - 0.73
Target Price Upside (%)	157.2%
TSR (%)	157.2%
Reporting Currency	AUD
Market Cap (\$m)	60
Sector	Materials
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

### Fundamentals

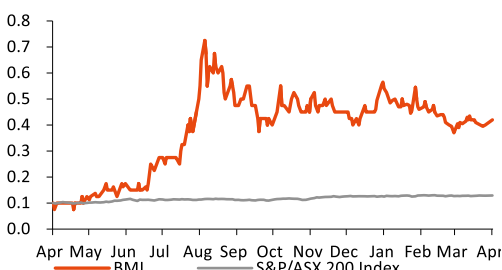
YE 30 Jun (AUD)	FY20A	FY21E	FY22E	FY23E
Sales (\$m)	0	0	0	0
NPAT (\$m)	(3)	(4)	(6)	(3)
EPS (cps)	(0.1)	(0.3)	(3.0)	(1.4)
EPS Growth (%)	42.3%	nm	nm	51.7%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	100%	100%

### Ratios

YE 30 Jun	FY20A	FY21E	FY22E	FY23E
P/E (x)	nm	nm	(13.3)	(27.6)
EV/EBITDA (x)	(18.2)	(14.3)	(14.3)	(28.7)
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 (%)	11.7%	(8.5%)	(25.6%)	290.8%
Absolute (%)	13.5%	(8.7%)	(22.2%)	320.0%
Benchmark (%)	1.8%	(0.2%)	3.4%	29.2%



Price performance indexed to 100

Source:

### Major Shareholders

Villiers Queensland Pty Ltd.	10.6%
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### Event

Boab Metals has updated its Mineral Resource Estimate for the Sorby Hills Lead-Silver Project. This interim update follows the recent Phase IV drilling program which was predominantly targeted at infill drilling of the existing resource and collecting geotechnical and metallurgical samples for the Definitive Feasibility Study (DFS). Boab is about to conduct a Phase V drilling program which is targeted at expanding the resource.

### 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 now conducting a Definitive Feasibility Study (DFS). Boab is conducting additional exploration and Resource definition drilling in anticipation of a Final Investment Decision in early 2022, a 12-18-month construction period and first production in mid-2023.
- In this interim update the overall resource is largely unchanged at 44.9Mt at 3.2% Pb and 37 g/t Ag (previously 44.1Mt at 3.3% Pb and 38 g/t Ag). The recent focus was on increasing the confidence in the resource for the DFS, not expanding the resource.
- The measured resource has increased by 4Mt (+56%) and there is a 19% increase in the resource base at shallow depths (<60m). The increase in the measured resource will result in increased Proved Reserves, and the additional shallow mineralisation will add to the Sorby Hills DFS mining inventory.
- BML will shortly commence a 6,000m Phase V drilling program targeting mineralisation adjacent to the current open pit designs. The objective of the Phase V drilling program is 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.

### Recommendation

We retain our Buy recommendation and price target of A\$1.02ps. Catalysts for the stock to reach our price target include;

- Further Resource upgrades post ongoing drilling programs.
- Delivery of the Sorby Hills Project through the course of FY21/22.
- Resolution of financing options.

	Grade			Contained Metal	
	Mt	Pb %	AG g/t	Pb kt	Ag koz
<b>Updated</b>					
Measured	11.1	3.6%	45	404	15,934
Indicated	11	3.4%	34	375	11,929
Inferred	22.8	2.9%	36	660	26,184
<b>Total</b>	<b>44.9</b>	<b>3.2%</b>	<b>37</b>	<b>1438</b>	<b>54,046</b>
<b>Previous</b>					
Measured	7.1	4.3%	57	305	12,910
Indicated	13.7	3.3%	31	452	13,546
Inferred	23.4	3.0%	36	702	26,873
<b>Total</b>	<b>44.1</b>	<b>3.3%</b>	<b>38</b>	<b>1455</b>	<b>54,518</b>

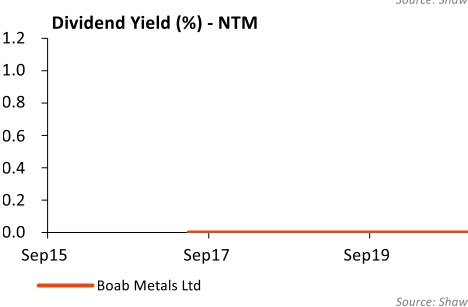
**Boab Metals Ltd**  
**Materials**  
**Materials**

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.40
Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.08 - 0.73
Shares on Issue (m)	152
Market Cap (\$m)	60
Enterprise Value (\$m)	57
TSR (%)	157.2%

**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	(13.3)	(27.6)
EV / EBIT (x)	(17.0)	(18.1)	(14.3)	(14.3)	(28.7)
EV / EBITDA (x)	(17.0)	(18.2)	(14.3)	(14.3)	(28.7)
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%)	(0.7%)	(128.1%)	(80.3%)
Profit and Loss (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	0	0	0	0	0
Other Operating Income	0	0	0	0	0
<b>EBITDA</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(4)</b>	<b>(2)</b>
EBITDA Margin (%)	nm	nm	nm	nm	nm
Depreciation & Amortisation	0	0	0	0	0
<b>EBIT</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(4)</b>	<b>(2)</b>
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
<b>NPAT Underlying</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(6)</b>	<b>(3)</b>
Significant Items	0	0	0	0	0
<b>NPAT Reported</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(6)</b>	<b>(3)</b>
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
<b>Operating Cashflow</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(4)</b>	<b>0</b>
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
<b>Investing Cashflow</b>	<b>(3)</b>	<b>(0)</b>	<b>(2)</b>	<b>(73)</b>	<b>(58)</b>
<b>Free Cashflow</b>	<b>(6)</b>	<b>(3)</b>	<b>(4)</b>	<b>(99)</b>	<b>(76)</b>
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)
<b>Financing Cashflow</b>	<b>7</b>	<b>4</b>	<b>10</b>	<b>148</b>	<b>(4)</b>
<b>Net Change in Cash</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>71</b>	<b>(61)</b>
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
<b>Total Assets</b>	<b>8</b>	<b>8</b>	<b>15</b>	<b>182</b>	<b>198</b>
Accounts Payable	1	0	0	0	0
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	100	100
<b>Total Liabilities</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>101</b>	<b>101</b>
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)

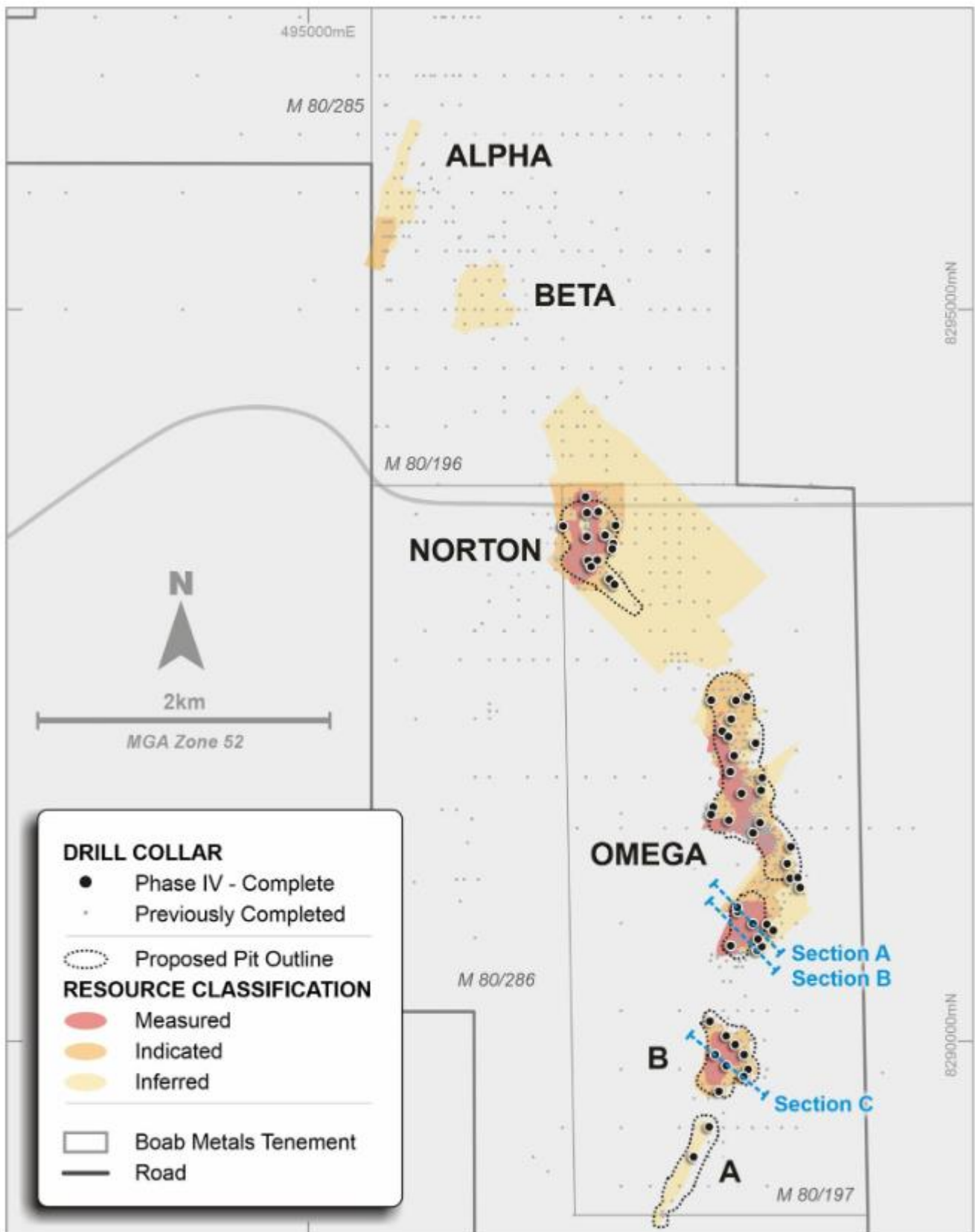


Figure 1 – Surface projection of Mineral Resource block model coloured by classification. Red = Measured, Orange= Indicated, Yellow = Inferred. Drill collars as used in the Mineral Resource Estimate

Source: Boab Metals ASX release April 2021

Figure 2: Sorby Hills – Omega deposit cross section

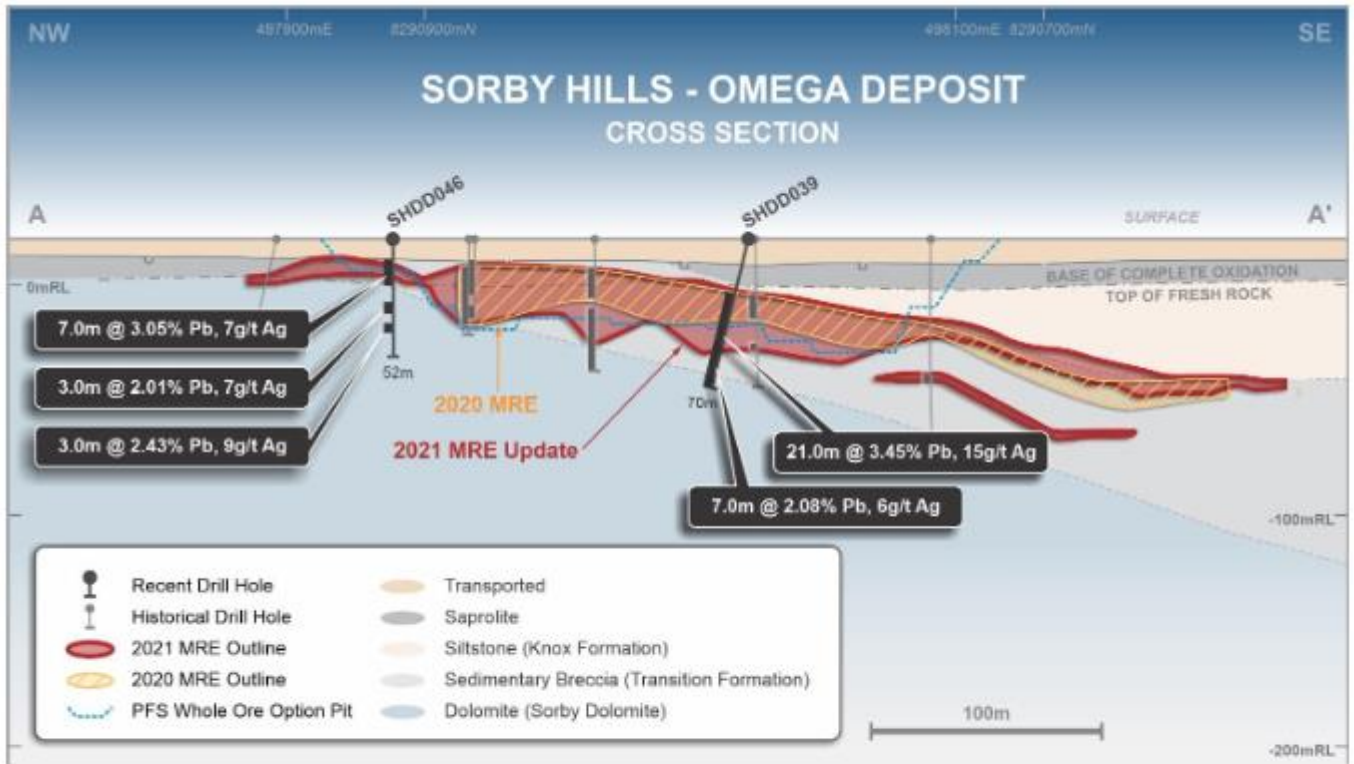


Figure 2 – Cross Section A-A' showing where new shallow Resources have been added in the southern Omega Deposit relative to the open pit outline.

Source: Boab Metals ASX release April 2021

Figure 3: Sorby Hills – B Deposit cross section

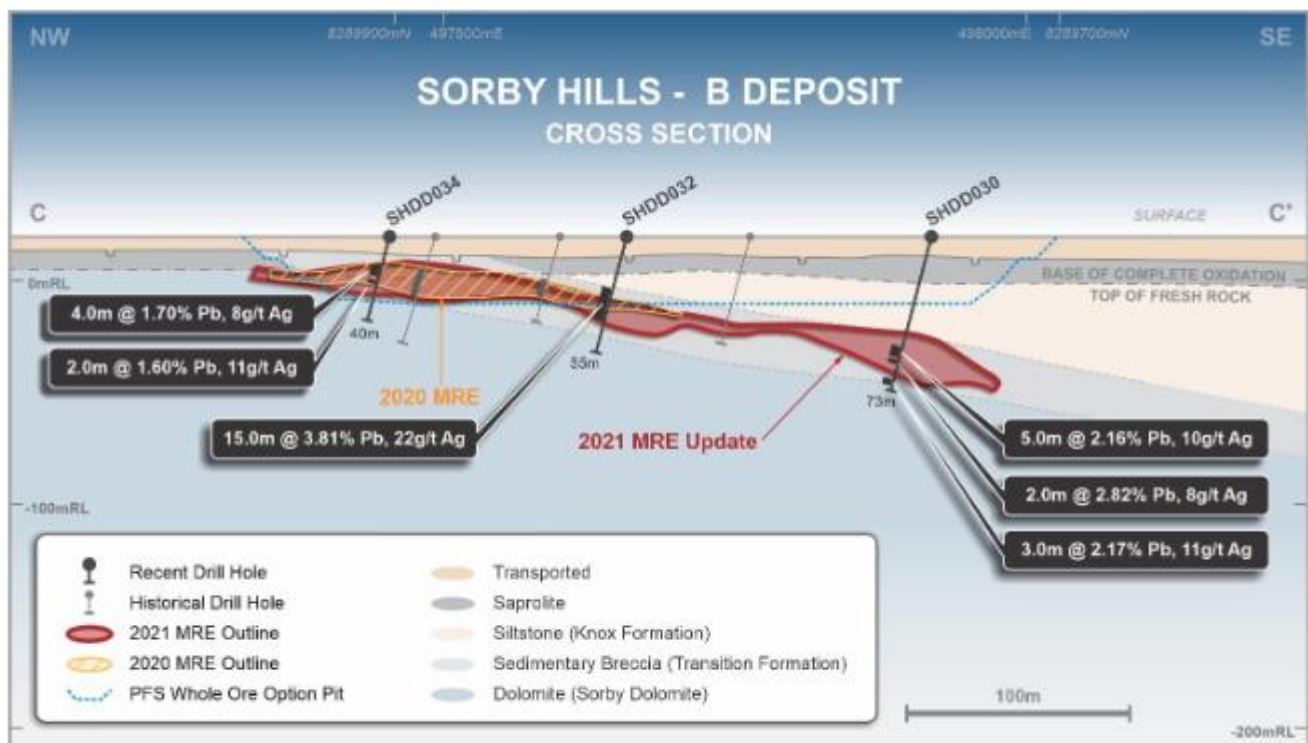


Figure 4 – Cross Section – C- C' showing where new shallow Resources have been added in the B Deposit relative to the open pit outline.

Source: Boab Metals ASX release April 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 BML to split the funding roughly A\$50m/A\$100m equity/debt. We forecast gearing to peak at 44% in FY23.

## Rating Classification

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

## Risk Rating

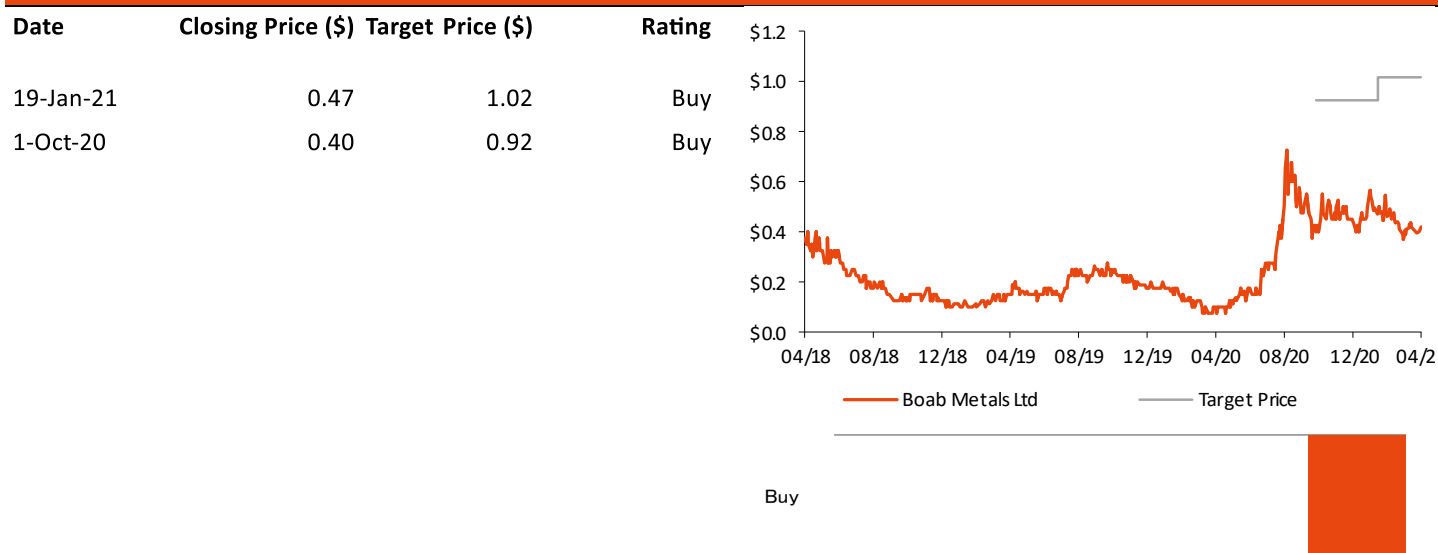
<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

**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	67	83%
Hold	13	16%
Sell	1	1%

### History of Investment Rating and Target Price - Boab Metals Ltd



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