

# Boab Metals Limited

13 July 2021

## Valuation at spot prices of A\$1/sh

Resources

BML ASX \$0.435 TARGET PRICE \$0.85

BUY

75% owned Sorby Hills Lead Silver Project in WA has a completed a Preliminary Feasibility Study and is moving towards financial close in November 2021 and then construction. Production planned to be 47Ktpa lead and 1.4Mozpa silver in concentrate for 10 years.

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# RAWSON LEWIS

## Market is missing impact of rising lead prices

### Boab share price not responding to higher lead prices

The Boab share price appears to be highly responsive to the silver price but shows almost no response to strengthening lead prices, at least until recently, despite being 3x more leveraged to lead.

### At spot metal prices Boab worth A\$1.03/sh on our base case

On our base case assumptions, the Boab share price is factoring in a lead price of A\$0.97/lb, 30% below the current lead price. The AUD lead price has averaged A\$1.30/lb for the last four years and in that time has never been below A\$1.00/lb. An A\$0.15/lb increase in lead price or a \$15/oz increase in silver price increases our valuation by A\$0.29/sh. Our base case valuation is A\$0.82/sh assuming lead and silver prices at the A\$ averages of the last four years, a discount rate of 10.5%, and a 50% increase in Reserves.

### Today's drilling announcement supports a bigger Reserve

The current Reserve is 13.6Mt and a 50% increase would take it to 20.4Mt. We would expect part of this increase will result from the current Phase V drilling and part from later programs. The current mine plan is 14.8Mt, so includes 1.2Mt of our increase. The interim Resource release of 6 April 2021 indicated 1.8Mt of Resource above 60m depth is likely to be incorporated into the mine plan, with some conversion loss, to which the results of the current phase will be added. 3000m of the base plan of 4200m has been sent for assay, with potential for extensions to Omega, Omega South, B Deposit, a new deposit west of Norton, and the evaluation of the zinc/silver lodes at Alpha and Beta.

### Leverage to lead price likely to be a significant benefit

The lead price has held up well over the COVID-19 impacted 2020, and the world is heading into the economic recovery phase. 2021 and 2022 are likely to see rebooting of consumer interest, restocking of supply chains, and strong commodity prices generally. Lead is particularly leveraged to a vehicle sales recovery. Purchases of vehicles has been in decline for three years and down ~20% in 2020. A strong rebound in vehicle demand is underway, but supply is constrained by the lack of computer chips to drive the instrument displays at present, and continued strong production is likely as these issues are resolved, with likely flow on benefit to lead demand into 2022.

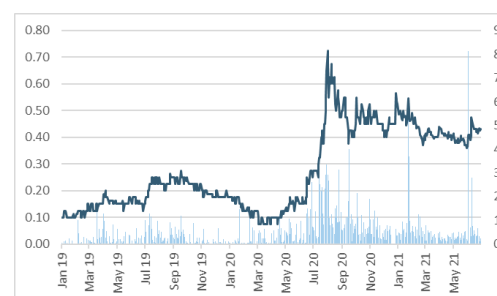
## Company Data

Shares Outstanding (M)	152
Price (\$/sh) at 8 July 2021	0.435
Market Capitalisation (\$M)	66.2
Free Float (%)	100%
Free Float Market Capitalisation (\$M)	66.2
12 Month Low (\$/sh)	0.25
12 Month High (\$/sh)	0.750
Average Daily Volume ('000)	702

Data Source: ASX, Company, Rawson Lewis est.

Earnings Summary (A\$M)				
Year end June	FY21	FY22	FY23	FY24
Sales revenue	0.0	0.0	0.0	166.5
EBITDA	-3.0	-1.5	-3.3	95.1
PBT	-3.0	-1.4	-7.1	58.7
Underlying NPAT	-2.1	-1.0	-5.0	41.1
Reported NPAT	-2.1	-1.0	-5.0	41.1
Reported EPS (c)	-1.3	-0.4	-2.1	17.5
Underlying EPS (c)	-1.3	-0.4	-2.1	17.5
DPS (c)	0	0	0	0
PER	na	na	na	2.5
Franking (%)	na	na	na	na
Dividend Yield (%)	na	na	na	na
Gross Yield (%)	na	na	na	na

## Price Graph to 8/7/21



Source: IRESS, Share price A\$/sh LHS, Turnover millions of shares RHS

## Directors & Management

Gary Comb	Chairman
Simon Noon	Managing Director
Richard Monti	Non-Executive Director
Andrew Parker	Non-Executive Director

## Shareholders at 13 Jan 21

Villiers	10.41%
Zero Nominees	4.49%
Brent Connolly	2.96%
Directors	2.40%

## Boab Metals Limited

Share Price A\$/sh				0.435
Price Target A\$/sh				0.850
<b>PROFIT AND LOSS A\$M</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Total Revenue - BML 75% share	0.0	0.0	0.0	166.5
COGS	0.0	0.0	-1.8	-69.9
Gross Profit	0.0	0.0	-1.8	96.6
Gross Profit Margin	na	na	na	58.0%
SG&A	-3.0	-1.5	-1.5	-1.5
EBITDA - Reported	-3.0	-1.5	-3.3	95.1
D&A	0.0	0.0	0.0	-29.4
EBIT - Reported	-3.0	-1.5	-3.3	65.7
Total Financial Income	0.0	0.1	-3.8	-7.1
PBT	-3.0	-1.4	-7.1	58.7
Tax Expense	0.9	0.4	2.1	-17.6
NPAT	-2.1	-1.0	-5.0	41.1
Minorities	0.0	0.0	0.0	0.0
Earned for Ordinary	-2.1	-1.0	-5.0	41.1
EPS A cps	-1.35	-0.41	-2.12	17.50
Ordinary shares M	152	235	235	235
Dividend A cps	0.0	0.0	0.0	0.0
EBITDA Margin %	na	na	na	57.1%
Return on Equity:	na	na	na	42.7%
Return on Invested Capital:	na	na	na	33.3%
PER	na	na	na	2.49
Price/Book	3.44	2.10	2.34	1.21
Book value A\$/sh	0.13	0.21	0.19	0.36
<b>VALUATION (NPV)</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Sorby Hills 2020 PFS	153.8	181.5	284.5	318.6
Corporate Overhead	-7.8	-7.6	-7.3	-7.0
Cash on hand	12.6	21.0	25.3	47.0
Debt	0.0	0.0	-100	-80.0
Net Working Capital	0.2	-2.7	-11.0	5.0
Valuation A\$M	158.8	192.3	191.5	283.5
Valuation A\$/sh	1.04	0.82	0.83	1.21
Discount Rate	10.5%			
<b>OPERATING DATA (100% basis BML 75%)</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Ore Processed Kt	0	0	0	1400
Lead Grade %	0.0%	0.0%	0.0%	5.5%
Silver Grade g/t	0.0	0.0	0.0	51.6
Lead Contained Kt	0	0	0	77
Silver Contained Koz	0	0	0	2323
Lead Recovery	0.0%	0.0%	0.0%	90.5%
Silver Recovery	0.0%	0.0%	0.0%	81.8%
Recovered Lead Kt	0.0	0.0	0.0	69.7
Recovered Silver Koz	0	0	0	1900
Conc Grade Lead	0.0%	0.0%	0.0%	62.0%
Conc Grade Silver	0	0	0	526
Concentrate Prod'n Kt (dry)	0.00	0.00	0.00	112.42
<b>Sales</b>				
Concentrate Sold Kt	0	0	0	106
Lead Contained Kt	0.0	0.0	0.0	65.8
Silver Contained Koz	0	0	0	1776
Lead Payable Mlb	0.0	0.0	0.0	141.4
Silver Payable Moz	0.00	0.00	0.00	1.76
Lead Revenue A\$M	0.0	0.0	0.0	188.7
Silver Revenue A\$M	0.0	0.0	0.0	60.6
Treatment Charges A\$M	0.0	0.0	0.0	-27.3
Net Revenue A\$M	0.0	0.0	0.0	222.0

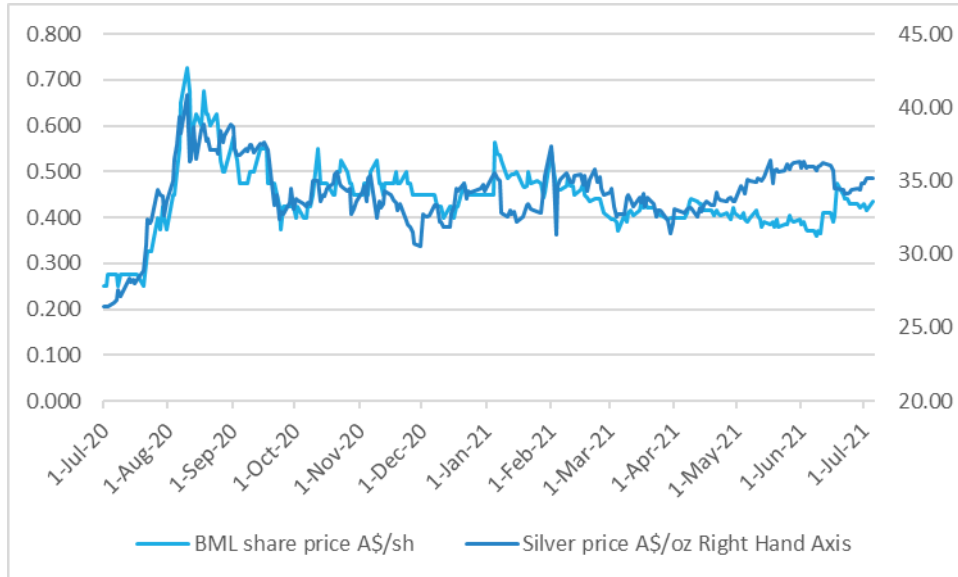
## BML-ASX

<b>CASH FLOW YE June</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Receipts from customers	0.2	0.0	0.0	163.3
Payments to Suppliers	-3.7	1.4	5.0	-84.2
Interest (Paid) / Received	0.0	0.1	-3.8	-7.1
Tax (Paid)	0.0	0.0	0.0	0.0
Operating cashflow	-5.0	-8.5	1.2	72.1
Capital expenditure	0.0	-23.3	-96.9	-28.3
<b>Asset Sales</b>				
Acquisitions				
<b>Divestments</b>				
Other Investing				
Investing cashflow	0.0	-23.3	-96.9	-30.4
Free Cash Flow	-5.0	-31.7	-95.8	41.7
Net Equity Raisings	15.4	40.2	0.0	0.0
Proceeds from Pre Sales	0.0	0.0	0.0	0.0
<b>Shares Repurchased</b>				
Net Borrowing	0.0	0.0	100.0	-20.0
Ordinary Dividends paid	0.0	0.0	0.0	0.0
Other	-0.8	0.0	0.0	0.0
Financing cashflow	14.6	40.2	100.0	-20.0
Exchange rate adj	0.0	0.0	0.0	0.0
Net change in cash	9.6	8.5	4.2	21.7
<b>BALANCE SHEET YE June</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Cash	12.6	21.0	25.3	47.0
Receivables	0.0	0.0	0.0	3.2
Inventories	0.5	0.0	0.0	12.7
Total Current Assets	13.1	21.1	25.3	62.9
PP&E	0.0	23.3	120.2	119.1
<b>Intangibles</b>				
Expln & Mine Devt	5.3	5.3	5.3	7.3
Deferred Tax Asset	1.8	2.2	4.4	4.4
Total Non Current Assets	7.1	30.8	129.9	130.8
Total Assets	20.2	51.8	155.1	193.7
Trade Payables	0.3	2.7	11.0	10.9
Prepaid Revenue	0.0	0.0	0.0	0.0
Borrowings	0.0	0.0	100.0	80.0
<b>Leveraged Leases</b>				
Current Tax Liabilities	0.0	0.0	0.0	17.6
Deferred Tax Liabilities	0.2	0.2	0.2	0.2
Provisions	0.4	0.4	0.4	0.4
Total Liabilities	0.9	3.3	111.6	109.1
Net Assets	19.3	48.5	43.5	84.6
Issued Capital	48.4	88.6	88.6	88.6
Reserves	1.6	1.6	1.6	1.6
Retained Profits	-29.0	-30.0	-35.0	6.1
Shareholder Equity	20.9	60.2	55.2	96.2
<b>ASSUMPTIONS</b>	<b>FY21F</b>	<b>FY22F</b>	<b>FY23F</b>	<b>FY24F</b>
Lead Price US\$/lb	0.00	0.98	0.99	1.00
Silver Price US\$/oz	0.00	25.28	25.53	25.79
AUSUSD	0.00	0.75	0.75	0.75
Cost Inflation	0.0%	1.0%	1.0%	1.0%
<b>Unit Costs</b>				
Mining A\$/lb Lead				0.23
Processing G&A A\$/lb				0.25
Selling Costs A\$/lb				0.32
Byproduct A\$/lb				-0.38
C1 costs A\$/lb				0.41
Sustaining Capex A\$/lb				0.02
AISC A\$/lb				0.43

## Boab share price responds to silver but not as yet to lead price movement

On our forecasts, Boab’s Sorby Hills project revenue split is 25% silver and 75% lead, yet until recently, the Boab share price appears to respond more to silver prices (Figure 1) than lead prices (Figure 2).

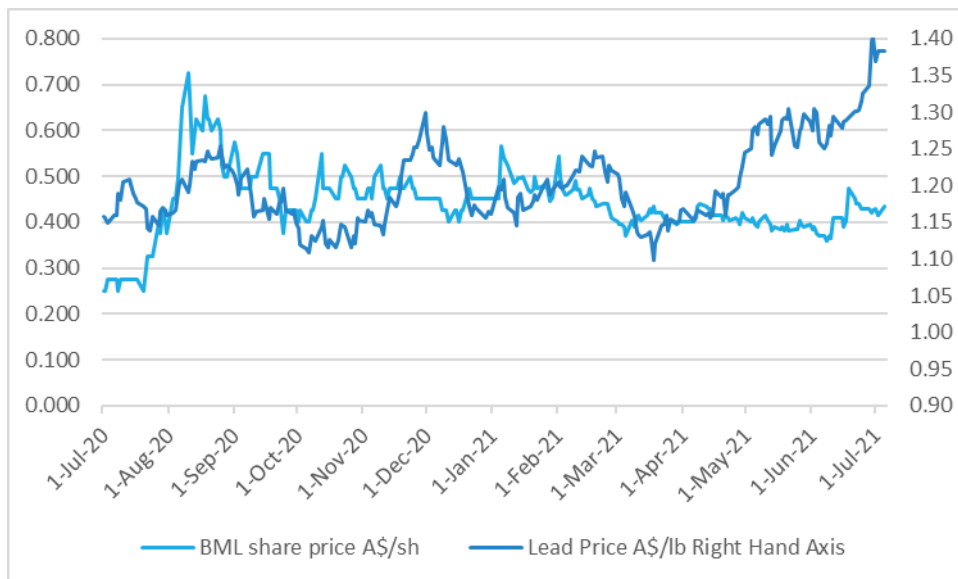
**Figure 1 Very strong correlation in the movement of share price and A\$ silver price**



Source: London Metals Exchange, ASX

In June, the Boab share price moved up strongly as the silver price fell in late June, with little in the way of new information to drive it, other than the lead price starting to break upwards at the time. However, the share price has not continued to track the very strong lead price momentum so far.

**Figure 2 BML share price has failed to follow the rises in lead price during bounces in December 2020, and February 2021 but may be starting to react to the latest increase**



Source: London Metals Exchange, ASX

Either the lead price has to come down, or the Boab share price has to go up.

While the previous lead price rallies have subsided within a quarter, this rally appears to be substantially more robust, and it comes at a time when global demand is recovering, and still has some way to go, particularly for auto production and demand for auto batteries.

## Boab valuation at spot prices

**Table 1 Boab valuation assuming current spot prices rising with cost inflation over life of mine**

Valuation at spot (Lead A\$1.38/lb, silver A\$35.21/oz)			
Discount Rate	15.0%	10.5%	7.0%
2020 PFS	0.556	0.747	0.946
PFS + reserve increase	0.735	1.035	1.376
Premium to current share price (A\$0.435/sh)			
2020 PFS	27.8%	71.7%	117.5%
PFS + reserve increase	69.0%	137.9%	216.3%

Source: Rawson Lewis estimates

Using the Capital Asset Pricing Model, we have derived a Weighted Average Cost of Capital (WACC) of 7.0% for Boab, which we believe will be appropriate when Boab is in production. The discount rate is used in the Net Present Value calculation to discount tomorrow's cash flows back to today. Our base case used a discount rate 30% higher (10.5%) to allow for project development risks. We have also run our numbers at 15% discount rate as well to demonstrate that the valuation is robust to high risk discounting.

The Rawson Lewis base case assumes a 50% increase in the reserves compared to those in the Preliminary Feasibility Study, with part being delivered in the current round of drilling and the rest as a result of future drilling programs. We show valuations with and without the additional Reserves.

Depending on discount rate and reserve assumptions, the value of Boab at today's spot metal prices ranges from A\$0.56/sh to A\$1.38/sh, ie at a premium to the current share price of 27.8% to 216%.

On the Rawson Lewis base case of 10.3% discount rate and increased reserves, the value is A\$1.03/sh. The valuation is clearly very sensitive to metal prices:

- A 20c/lb increase in lead price increases the valuation by 29cps
- A\$5/oz increase in silver price increases the valuation by 10cps

**Table 2 Long term lead price implied by current share price, assuming various discount rates**

Lead price in current share price of A\$0.435/sh			
Discount Rate	15.0%	10.5%	7.0%
2020 PFS	1.26	1.13	1.03
PFS + reserve increase	1.12	0.97	0.87
Discount to Spot			
2020 PFS	-8.7%	-18.1%	-25.4%
PFS + reserve increase	-18.8%	-29.7%	-37.0%

Source: Rawson Lewis estimates

Another way of looking this issue is to ask what lead price is factored into the current share price. In Table 2, for the same variety of discount rates and reserve assumptions, the current share price factors in a lead price of A\$0.87/lb to A\$0.126/lb, or prices 37% to 8.7% less than the current spot lead price. Over the last four years, the A\$ lead price has not been below A\$1/lb and has averaged A\$1.30/lb, so without asking for any change in average prices, Boab is trading below value.

## Why is the share market ignoring the lead price?

We attribute this behaviour to the markets' lack of interest in, and understanding of, the lead market, and because the price rallies over the last year have been temporary.

In our Boab report of 18 March 2021, we argued the case that any world that is moving to battery solutions to solve the problems of intermittent green energy generation will have to include lead acid batteries, and that lead battery technology is likely to be cost competitive for many years.

That means in the current global upturn in growth, which is expected to continue as the world recovers from COVID-19, lead should participate along with the other metals. While it might not show the same volatility as lithium, copper or nickel, it is still likely to see price appreciation.

The recent runs in lead price in December 2020 and February 2021 indicate that it doesn't take much to cause the lead market to tighten, and the strength of the current rise may be signalling the potential for more sustained higher pricing into 2022.

A major use of lead is in starter and services management batteries for both conventional and electric automobiles, and auto production has been materially constrained by the lack of computer chips for instrument displays. There is pent up demand for vehicles which will result in strong growth from the current base as the chip issue is resolved.

## Boab is the most leveraged to lead Reserves of all ASX listings

**Table 3 Boab most leveraged in terms of lead reserves per \$ of Enterprise Value (last column)**

	Co.	Share of Reserve Kt Lead	Issued Shares M	Share Price A\$/sh	Mkt Cap A\$M	Cash A\$M	Debt A\$M	EV A\$M	Pb lb/\$ EV
Boab Metals	BML	371	152	0.435	66.2	14.1	0.0	52.1	15.7
Galena Mining	G1A	451	476	0.220	104.7	26.3	0.0	78.5	12.7
Ironbark Zinc	IBG	107	1203	0.026	31.3	2.6	0.0	28.7	8.2
Red River	RVR	21	520	0.220	114.3	28.5	0.6	86.4	0.53
Subtotal		949			316.5			245.7	8.52

Source: Company releases

Boab has 15.7 pounds of lead per \$1 of Enterprise Value (2205lb to 1 metric tonne), and we believe this will grow in the next six months. The next two most leveraged to Reserves are Galena (12.7lb/\$ EV) and Ironbark (8.2lb/\$EV). This means that Boab is the cheapest way to purchase share price leverage to lead Reserves in the Australian market at this time, with 24% more leverage than the next best exposure, Galena Mining and 91% more than Ironbark. We believe that the current exploration program being undertaken by Boab will increase Resources and Reserves, so that leverage will increase significantly.

Note that the total market capitalization of these four companies is only A\$317M (Table 3), so there is likely to be a shortage of scrip in the event that lead prices rise and investors want exposure. The situation is not improved much if exposure to companies which only have Resources is included, with the equity pool growing to A\$389M.

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