

# Boab Metals Ltd (BML)

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

## Quantifying the upside case at Sorby Hills

### Key Information

Current Price (\$ps)	0.41
12m Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.36 - 0.68
Target Price Upside (%)	152.0%
TSR (%)	152.0%
Reporting Currency	AUD
Market Cap (\$m)	62
Sector	Materials
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0%

### Fundamentals

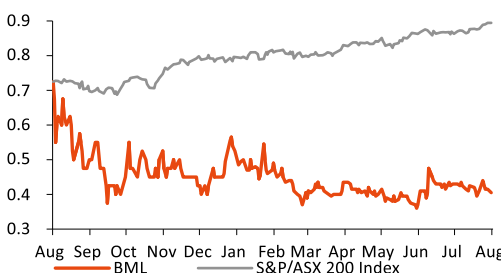
YE 30 Jun (AUD)	FY20A	FY21E	FY22E	FY23E
Sales (\$m)	0	0	0	0
NPAT (\$m)	(3)	(4)	(6)	(3)
EPS (cps)	(0.1)	(0.3)	(3.0)	(1.4)
EPS Growth (%)	42.3%	nm	nm	51.8%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	100%	100%

### Ratios

YE 30 Jun	FY20A	FY21E	FY22E	FY23E
P/E (x)	nm	nm	(13.7)	(28.4)
EV/EBITDA (x)	(18.6)	(14.7)	(14.7)	(29.4)
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 (%)	(8.3%)	7.8%	(7.5%)	(67.5%)
Absolute (%)	(4.7%)	11.0%	(2.4%)	(44.1%)
Benchmark (%)	3.6%	3.2%	5.1%	23.4%



Price performance indexed to 100

Source:

### Major Shareholders

Villiers Queensland Pty Ltd.	10.6%
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### Event

Boab Metals is completing a drilling program with the objective to increase the size of the resource which may support a larger processing plant. This would enhance the already attractive economics. On our forecasts, an expanded project lifts our valuation from \$1.02 to \$1.17ps and adds A\$20-40m to EBITDA from year 3.

### 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 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.
- BML is conducting a 48 hole 4,200m Phase V drilling program targeting mineralisation adjacent to the current open pit design. The objective of the 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.
- The early indications look highly encouraging;
  - Boab has encountered mineralisation more than 100m beyond the current deposit envelope at northwest Omega;
  - The zone of mineralisation has been extended at the B-deposit; and
  - A new zone of shallow lead and zinc mineralisation has been intersected 500m west of the Norton deposit.
- 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).
- 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.
- Boab Metals recently acquired the Manbarrum zinc-lead-silver project from Todd River Resources for \$500k in shares plus a 1.25% royalty. In our view this is a sensible strategic acquisition which provides Boab with additional growth options once it has brought Sorby Hills into production. It also adds additional zinc resources which may lead to Boab adding zinc concentrate to its product suite.

### 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.

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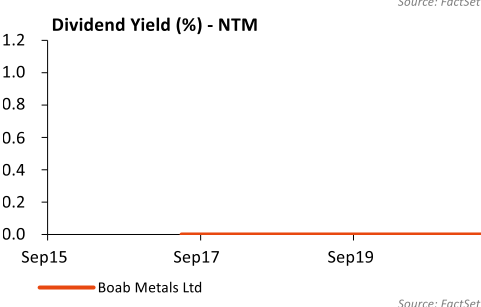
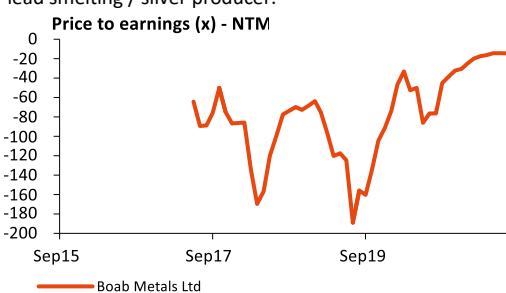
**Boab Metals Ltd**  
**Materials**  
**Materials**

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.41
Target Price (\$ps)	1.02
52 Week Range (\$ps)	0.36 - 0.68
Shares on Issue (m)	152
Market Cap (\$m)	62
Enterprise Value (\$m)	59
TSR (%)	152.0%

**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.



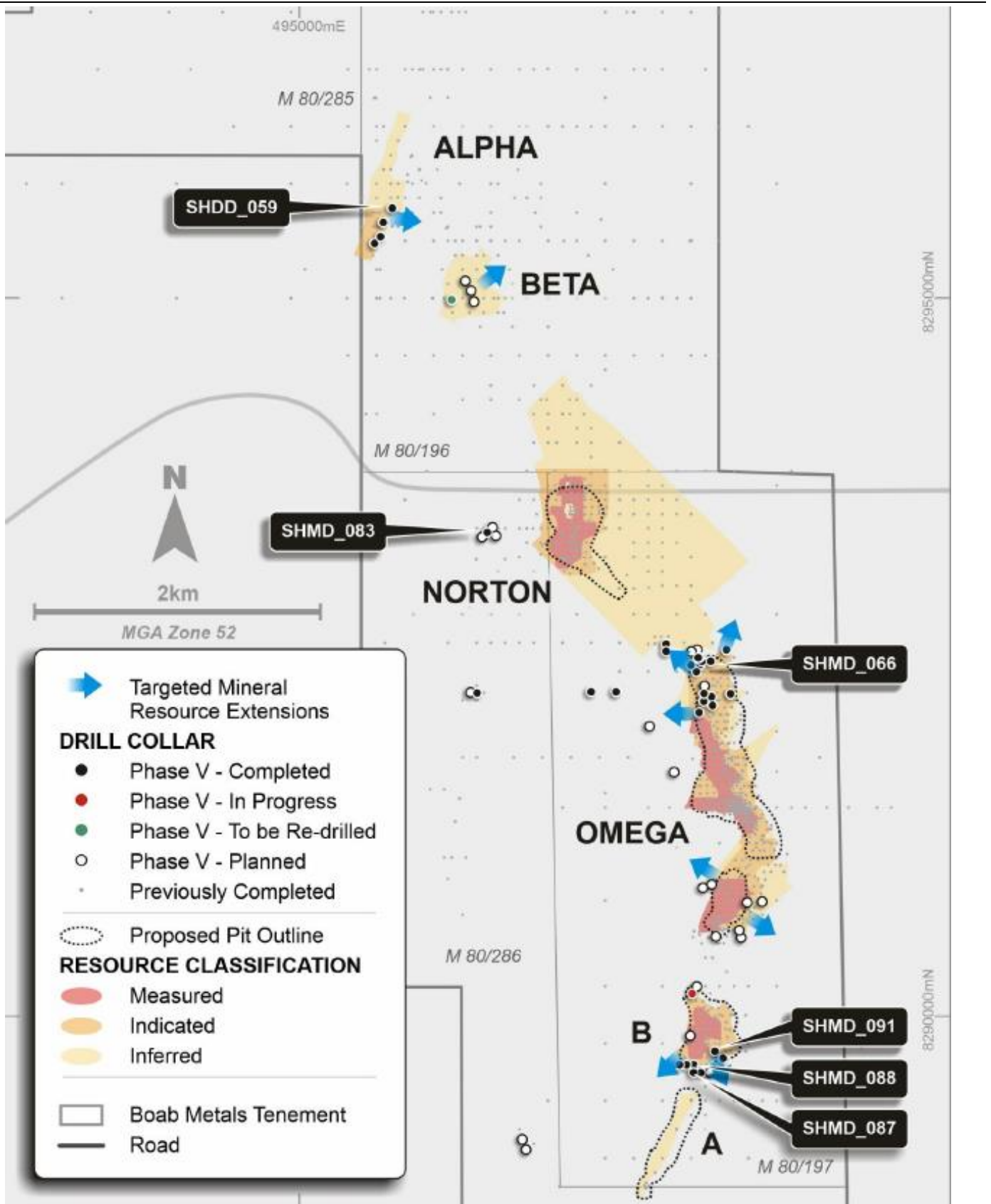
**Financial Year End: 30 June**

Investment Summary (AUD)	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	51.8%
PE (Underlying) (x)	(71.9)	nm	nm	(13.7)	(28.4)
EV / EBIT (x)	(17.5)	(18.6)	(14.7)	(14.7)	(29.4)
EV / EBITDA (x)	(17.5)	(18.6)	(14.7)	(14.7)	(29.4)
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%	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%)	(124.6%)	(77.9%)
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>(3.4)</b>	<b>(3.2)</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(2.0)</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)

**Assessing an upside case**

Boab Metals is conducting a 48 hole 4,200m Phase V drilling program with the objective of expanding the resource to potentially support a larger project.

**Figure 1: Sorby Hills – Phase V drilling program**



Source: Boab Metals ASX release July 2021

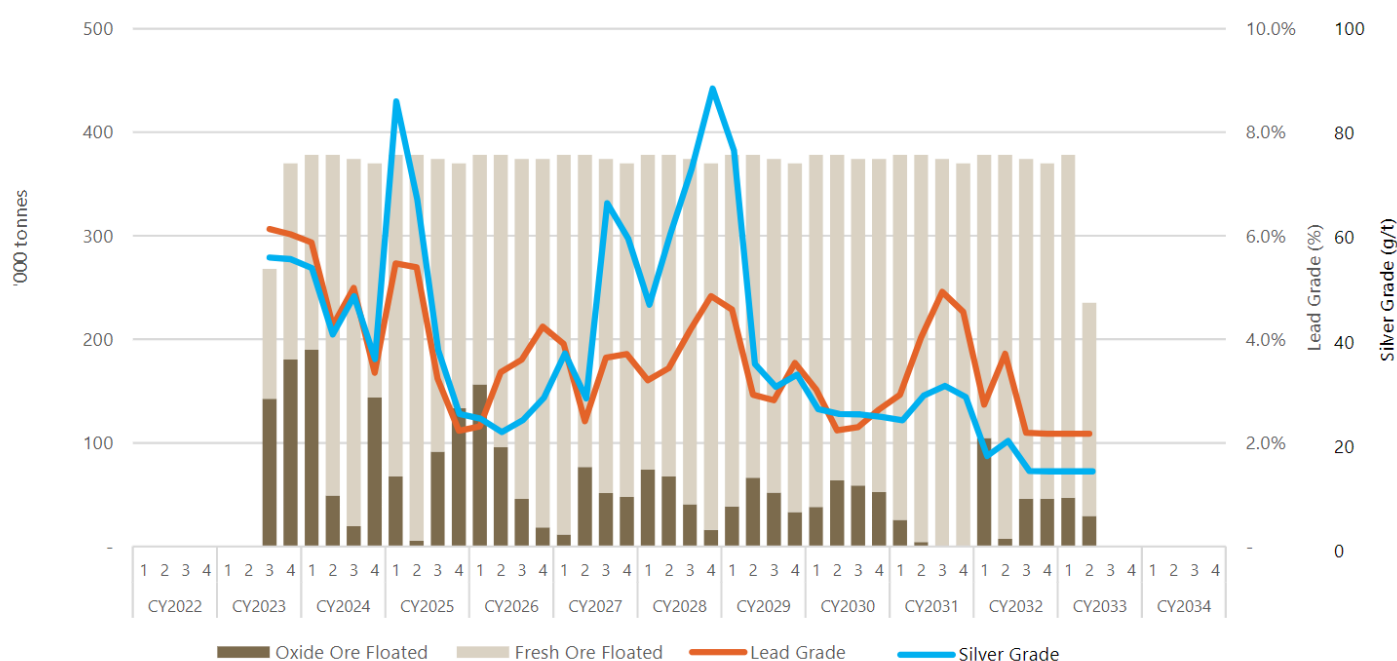
The early indications from the drilling program look very encouraging;

- Boab has encountered mineralisation more than 100m beyond the current deposit envelope at northwest Omega;
- The zone of mineralisation has been extended at the B-deposit; and
- A new zone of shallow lead and zinc mineralisation has been intersected 500m west of the Norton deposit.

In the Sorby Hills PFS, Boab Metals has outlined a project with a 1.5Mtpa concentrator throughput with metal production dependent on lead and silver grade. The higher grade ore from Omega is expected to be processed first, with Norton again boosting the grade in CY27/28.

The grade is expected to lower in late 2025 and 2026 as lower grade ore from deposit B is processed.

**Figure 2: Concentrator throughput and grade profile – Sorby Hills PFS**



Source: Boab Metals presentation

If the Phase V drilling program is successful, then a likely option is for Boab Metals to spend additional capital on expanding the crushing/milling capacity at the Sorby Hill concentrator. That would boost metal production in year three of the operation despite the decline in grade.

We have run a sensitivity through our Sorby Hills financial model adding 500kt of annual capacity from year three at a capital cost of A\$30m.

On our model this increases the NPV of Sorby Hills (Boab 75% share) from A\$168m to A\$202m and would increase our valuation of BML from \$1.02 to \$1.17ps.

The additional production would increase EBITDA in years 3/4/5 of the project by A\$20m/A\$26m/A\$41m respectively

**Figure 3: Shaw and Partners base case forecasts**

Boab Metals Operations (A\$m) - 100%	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Ore processed (kt)	0	0	0	1,200	1,500	1,500	1,500	1,500	1,500	1,500
Lead concentrate (kt)	0	0	0	86	108	71	71	86	75	65
Payable lead (kt)	0	0.0	0.0	56.0	70.0	46.2	46.2	56.0	49.0	42.0
Payable silver (Moz)	0	0.0	0.0	1.5	1.9	1.4	1.9	2.3	1.9	1.5
Revenue	0	0	0	209	263	179	201	248	219	188
Expenses	0	0	0	95	120	119	122	126	127	128
EBITDA	0	0	0	115	142	60	79	122	92	60
D&A	0	0	0	12	14	14	14	14	14	6
EBIT	0	0	0	103	128	46	65	108	77	54
Net Operating Assets	2	71	166	173	162	150	139	128	117	114
Capex	0	69	95	19	3	3	3	3	3	3
EBITDA Margin (%)	0%	0%	0%	55%	54%	34%	39%	49%	42%	32%
EBIT / Assets (%)	0%	0%	0%	60%	79%	30%	46%	84%	66%	47%
Silver (US\$/oz)	25.0	29.0	29.5	28.0	25.2	23.9	24.4	24.9	25.5	26.1
Lead (US\$/lb)	91	100	96	99	103	107	109	112	114	117
AUD/USD	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Revenue (A\$/t)	0	0	0	3,738	3,756	3,877	4,353	4,437	4,473	4,487
Expenses (A\$/t)	0	0	0	1,690	1,721	2,574	2,643	2,259	2,602	3,059
EBITDA (A\$/t)	0	0	0	2,048	2,035	1,303	1,710	2,178	1,872	1,428
D&A (A\$/t)	0	0	0	206	206	312	312	258	294	137
EBIT (A\$/t)	0	0	0	1,842	1,828	991	1,397	1,921	1,577	1,291
Nominal Tax @ 30%	0	0	0	-31	-38	-14	-19	-32	-23	-16
Cash Flow	0	-69	-95	65	101	43	56	86	65	40

Source: Shaw and Partners analysis

**Figure 4: Shaw and Partners expansion case forecasts**

Boab Metals Operations (A\$m) - 100%	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Ore processed (kt)	0	0	0	1,200	1,500	2,000	2,000	2,000	2,000	2,000
Lead concentrate (kt)	0	0	0	86	108	95	95	115	100	86
Payable lead (kt)	0	0.0	0.0	56.0	70.0	61.6	61.6	74.6	65.3	56.0
Payable silver (Moz)	0	0.0	0.0	1.5	1.9	1.8	2.6	3.1	2.6	2.1
Revenue	0	0	0	209	263	239	268	331	292	251
Expenses	0	0	0	95	120	158	163	169	170	171
EBITDA	0	0	0	115	142	80	105	163	122	80
D&A	0	0	0	9	12	16	16	16	16	6
EBIT	0	0	0	105	131	65	90	147	107	74
Net Operating Assets	2	71	166	175	197	184	172	160	148	145
Capex	0	69	95	19	33	3	3	3	3	3
EBITDA Margin (%)	0%	0%	0%	55%	54%	34%	39%	49%	42%	32%
EBIT / Assets (%)	0%	0%	0%	60%	66%	35%	52%	92%	72%	51%
Silver (US\$/oz)	25.0	29.0	29.5	28.0	25.2	23.9	24.4	24.9	25.5	26.1
Lead (US\$/lb)	91	100	96	99	103	107	109	112	114	117
AUD/USD	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Revenue (A\$/t)	0	0	0	3,738	3,756	3,877	4,353	4,437	4,473	4,487
Expenses (A\$/t)	0	0	0	1,690	1,721	2,574	2,643	2,259	2,602	3,059
EBITDA (A\$/t)	0	0	0	2,048	2,035	1,303	1,710	2,178	1,872	1,428
D&A (A\$/t)	0	0	0	166	166	252	252	208	237	111
EBIT (A\$/t)	0	0	0	1,882	1,868	1,052	1,458	1,971	1,634	1,318
Nominal Tax @ 30%	0	0	0	-32	-39	-19	-27	-44	-32	-22
Cash Flow	0	-69	-95	64	70	58	75	115	87	54

Source: Shaw and Partners analysis

### 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

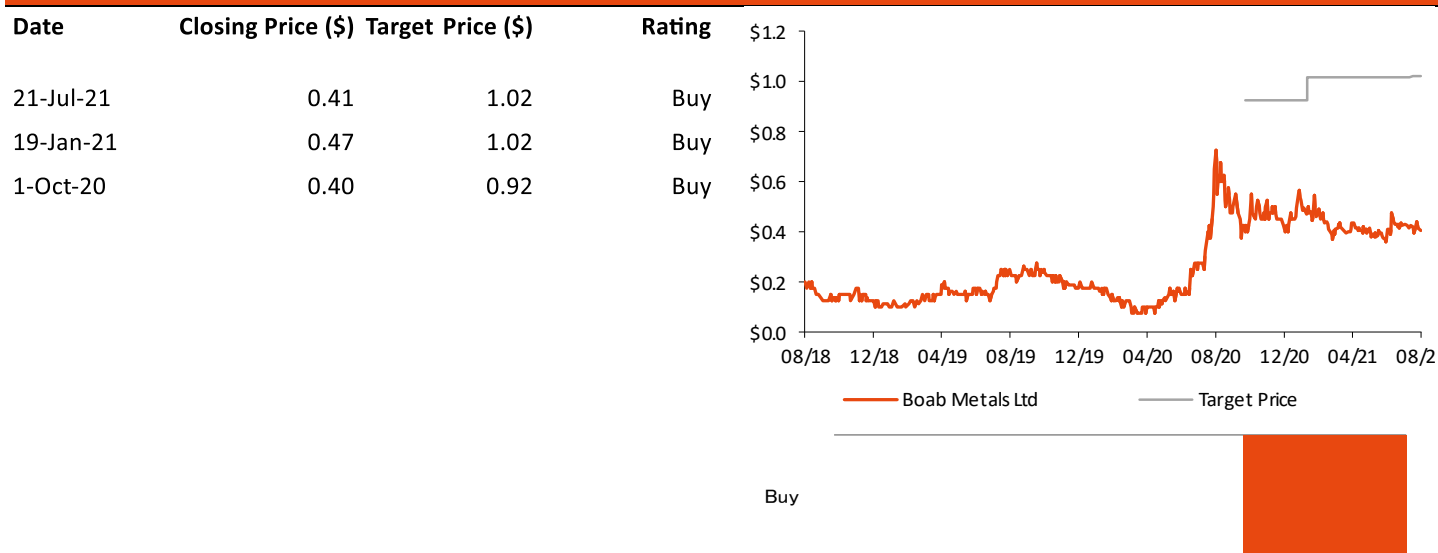
<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

**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	72	81%
Hold	15	17%
Sell	2	2%

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



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Depending on the timing and size of your investment, your portfolio composition may differ to the model. Performance figures are derived from the inception date of the model and its investment transactions from that date, therefore the performance for your portfolio may be different. If you have any questions in connection with differences between your portfolio and the model, you should speak with your adviser.

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**RISKS ASSOCIATED WITH HYBRID SECURITIES:** Hybrid securities and listed debt instruments differ from investments in equities and cash products in a number of important respects. The liquidity risk associated with an investment in hybrid securities and listed debt instruments will generally be greater than that associated with equities. The credit risk associated with hybrid securities and listed debt instruments is higher than that of a cash product or term deposit. Some hybrid securities may be perpetual in nature, meaning that they can only be redeemed or exchanged for cash or equity at the issuer’s option. Hybrids may also contain terms which automatically trigger the deferral of an interest payment or cause the issuer to repay the hybrid earlier or later than anticipated. ASIC has published information to assist consumers in understanding the risks and benefits associated with an investment in hybrid securities or listed debt instruments. This information can be found under the heading ‘Complex Investments’ at [www.moneysmart.gov.au/investing](http://www.moneysmart.gov.au/investing).

**DISCLOSURE:** Shaw will charge commission in relation to client transactions in financial products and Shaw client advisers will receive a share of that commission. Shaw, its authorised representatives, its associates and their respective officers and employees may have earned previously or may in the future earn fees and commission from dealing in the Company's financial products. **Shaw acted as Sole/Joint Lead Manager and Underwriter in the <insert month and year> <insert corporate action> of <insert company> securities for which it received fees or will receive fees for acting in this capacity. Accordingly, Shaw may have a conflict of interest which investors should consider before making an investment decision. – go to K:\Corporate Disclosures\Corporate\_Disclosures.xls [Delete this sentence if not applicable].**

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