

Boab Metals Limited

10 January 2022

Value disconnect must close

BML ASX \$0.31 TARGET PRICE \$0.81

75% owned Sorby Hills Lead Silver Project in WA has a completed a Preliminary Feasibility Study and is moving towards financial close in mid 2022 and then construction. Production planned to be 47Ktpa lead and 1.4Mozpa silver in concentrate for 10 years.

Resources

BUY

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Project de-risking, lead price rising, share price must follow

The market appears to be pricing Boab on the 2020 PFS mine plan and costs, assuming long term consensus commodity forecast prices at a discount rate of 9%pa, post the dilution of a major share issue to fund development of the project at an issue price of A\$0.25/sh. If the DFS due Q2 2022 adds the 3Mt we are expecting, the valuation on the same assumptions rises to A\$0.44/sh, and if the market stops using long term consensus and uses the averages of the last 12 months, the valuation rises to A\$0.61/sh. If the market trades at that level, the major issue could be priced at A\$0.50/sh, lifting the valuation to A\$0.81/sh.

Derisking ongoing: Company on track for DFS in Q2 2022

Boab has indicated the Definitive Feasibility Study completion is likely to be early Q2 2022 (per September 2021 quarterly). The Resource is now locked in for the DFS, and appears supportive of an additional 3Mt being added to the mine plan.

Boab share price not tracking the rising lead price

Typically, mining company share prices go up and down with the A\$ prices of the relevant commodities, even those companies that are not yet in production. Boab was moving with the lead and silver prices until April 2021. We expect this disconnect will resolve, with either the lead price coming down or the Boab share price going up.

Investment case for Boab based on commodity prices

- Boab appears to be trading on a lead price of A\$1.21/lb and a silver price of A\$27.50/oz (ie long term consensus).
- 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. Silver has averaged A\$28.95/oz over the last three years and A\$33.32/oz over the last 18 months
- Boab is the most leveraged ASX listed equity to lead price upside. A\$0.10/lb increase in lead price adds ~20cps to our valuation. A\$2/oz increase in the silver price adds 4cps.
- In a world powered increasingly by batteries, it is highly likely that lead acid batteries will see continued demand growth, particularly if demand for lithium continues to outstrip supply as the market appears to expect. Lead will pick up the price sensitive applications for some time yet.

Company Data

Shares Outstanding (M)	152
Price 4 January 2022 (\$/sh)	0.310
Market Capitalisation (\$M)	47.2
Free Float (%)	100%
Free Float Market Capitalisation (\$M)	47.2
12 Month Low (\$/sh)	0.335
12 Month High (\$/sh)	0.585
Average Daily Volume ('000)	412

Data Source: ASX, Company, Rawson Lewis est.

Earnings Summary (A\$M)				
Year end June	FY21	FY22	FY23	FY24
Sales revenue	0.5	0.0	0.0	175.9
EBITDA	-5.0	-1.5	-3.3	101.5
PBT	-5.0	-1.4	-7.2	64.3
Underlying NPAT	-5.0	-1.0	-5.0	45.0
Reported NPAT	-5.0	-1.0	-5.0	45.0
Reported EPS (c)	-3.3	-0.4	-2.1	19.2
Underlying EPS (c)	-3.3	-0.4	-2.1	19.2
DPS (c)	0	0	0	0
PER	na	na	na	1.6
Franking (%)	na	na	na	na
Dividend Yield (%)	na	na	na	na
Gross Yield (%)	na	na	na	na

Price Graph to 4 Jan 2022



Source: IRESS, Share price AS/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 29 Nov 21

Villiers	10.54%
Zero Nominees	8.36%
Citycorp	3.59%
Directors	2.70%

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BML-ASX

Share Price A\$/sh				0.310
Price Target A\$/sh				0.810
PROFIT AND LOSS A\$M	FY21F	FY22F	FY23F	FY24F
Total Revenue - BML 75% share	0.5	0.0	0.0	175.9
COGS	0.0	0.0	-1.8	-72.9
Gross Profit	0.5	0.0	-1.8	103.0
<i>Gross Profit Margin</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>58.6%</i>
SG&A	-5.4	-1.5	-1.5	-1.5
EBITDA - Reported	-5.0	-1.5	-3.3	101.5
D&A	0.0	0.0	0.0	-30.2
EBIT - Reported	-5.0	-1.5	-3.3	71.3
Total Financial Income	0.0	0.1	-3.9	-7.1
PBT	-5.0	-1.4	-7.2	64.3
Tax Expense	0.0	0.4	2.2	-19.3
NPAT	-5.0	-1.0	-5.0	45.0
Minorities	0.0	0.0	0.0	0.0
Earned for Ordinary	-5.0	-1.0	-5.0	45.0
EPS A cps	-3.26	-0.41	-2.14	19.17
Ordinary shares M	152	235	235	235
Dividend A cps	0.0	0.0	0.0	0.0
EBITDA Margin %	na	na	na	57.7%
Return on Equity:	na	na	na	46.8%
Return on Invested Capital:	na	na	na	36.5%
PER	na	na	na	1.62
Price/Book	2.78	1.26	1.37	0.74
Book value A\$/sh	0.11	0.25	0.23	0.42
VALUATION (NPV)	FY21F	FY22F	FY23F	FY24F
Sorby Hills 2022 Est	140.0	166.2	267.6	298.2
Exploration	15.0	15.0	15.0	15.0
Corporate Overhead	-7.8	-7.6	-7.3	-7.0
Cash on hand	12.9	19.9	24.1	36.4
Debt	0.0	0.0	-100.0	-80.0
Net Working Capital	-0.9	-2.4	-10.6	21.3
Valuation A\$M	159.2	191.2	188.8	283.8
Valuation A\$/sh	1.05	0.81	0.80	1.21
Discount Rate	10.5%			
OPERATING DATA (100% basis BML 75%)	FY21F	FY22F	FY23F	FY24F
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%	80.5%
Recovered Lead Kt	0.0	0.0	0.0	69.7
Recovered Silver Koz	0	0	0	1871
Conc Grade Lead	0.0%	0.0%	0.0%	62.0%
Conc Grade Silver	0	0	0	518
Concentrate Prodn Kt (dry)	0.00	0.00	0.00	112.42
Sales				
Concentrate Sold Kt dry	0	0	0	112
Lead Contained Kt	0.0	0.0	0.0	69.7
Silver Contained Koz	0	0	0	1871
Lead Payable Mlb	0.0	0.0	0.0	146.0
Silver Payable Moz	0.00	0.00	0.00	1.78
Lead Revenue A\$M	0.0	0.0	0.0	200.9
Silver Revenue A\$M	0.0	0.0	0.0	61.1
Treatment Charges A\$M	0.0	0.0	0.0	-27.5
Net Revenue A\$M	0.0	0.0	0.0	234.5

CASH FLOW YE June	FY21F	FY22F	FY23F	FY24F
Receipts from customers	0.0	0.0	0.0	157.0
Payments to Suppliers	-1.7	-0.1	5.0	-87.4
Interest (Paid) / Received	0.0	0.1	-3.9	-7.1
Tax (Paid)	0.0	0.0	0.0	0.0
Operating cashflow	-4.6	0.0	1.1	62.5
Capital expenditure	0.0	-23.3	-96.9	-28.3
Asset Sales				
Acquisitions				
Divestments				
Other Investing				
Investing cashflow	0.1	-33.3	-96.9	-30.2
Free Cash Flow	-4.4	-33.2	-95.8	32.3
Net Equity Raisings	15.1	40.2	0.0	0.0
Proceeds from Pre Sales	0.0	0.0	0.0	0.0
Shares Repurchased				
Net Borrowing	-0.1	0.0	100.0	-20.0
Ordinary Dividends paid	0.0	0.0	0.0	0.0
Other	-0.6	0.0	0.0	0.0
Financing cashflow	14.4	40.2	100.0	-20.0
Exchange rate adjustment	0.0	0.0	0.0	0.0
Net change in cash	10.0	7.0	4.2	12.3
BALANCE SHEET YE June	FY21F	FY22F	FY23F	FY24F
Cash	12.9	19.9	24.1	36.4
Receivables	0.4	0.4	0.4	19.3
Inventories	0.0	0.0	0.0	13.2
Total Current Assets	13.3	20.3	24.4	68.9
PP&E	0.0	23.3	120.2	118.4
Intangibles				
Expln & Mine Devt	5.2	15.3	15.3	17.2
Deferred Tax Asset	0.0	1.9	4.1	4.1
Total Non Current Assets	5.4	40.7	139.8	139.8
Total Assets	18.7	61.0	164.2	208.7
Trade Payables	1.3	2.7	11.0	11.3
Prepaid Revenue	0.0	0.0	0.0	0.0
Borrowings	0.0	0.0	100.0	80.0
Leveraged Leases				
Current Tax Liabilities	0.0	0.0	0.0	19.3
Deferred Tax Liabilities	0.2	0.2	0.2	0.2
Provisions	0.2	0.1	0.1	0.1
Total Liabilities	1.7	3.0	111.3	110.9
Net Assets	17.0	57.9	52.9	97.9
Issued Capital	47.7	87.9	87.9	87.9
Reserves	1.3	1.3	1.3	1.3
Retained Profits	-32.0	-33.0	-38.0	7.0
Shareholder Equity	17.0	56.2	51.2	96.2
ASSUMPTIONS	FY21F	FY22F	FY23F	FY24F
Lead Price US\$/lb	0.00	1.01	1.02	1.03
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%
Unit Costs				
Mining A\$/lb Lead				0.23
Processing G&A A\$/lb				0.27
Selling Costs A\$/lb				0.34
Byproduct A\$/lb				-0.40
C1 costs A\$/lb				0.45
Sustaining Capex A\$/lb				0.02
AISC A\$/lb				0.46

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Valuation variables: Boab cheap on any basis

Table 1 Valuation scenarios – Cheap on all outcomes

Scenario:	1	2	3	4	5	6	7
Model:	PFS	PFS	PFS	PFS	Base	Base	Base
Assum:	Spot	LT Cons	LT Cons	Spot	LT Cons	Base	Spot
Issue at A\$0.25/sh							
Lead Price US\$/lb	1.06	0.90	0.90	1.06	0.90	1.00	1.06
Silver Price US\$/oz	23.38	20.34	20.34	23.38	20.34	25.00	23.38
AUD/USD	0.73	0.74	0.74	0.73	0.74	0.75	0.73
Disc Rate	19.0%	9.0%	10.5%	10.5%	10.5%	10.5%	10.5%
NPV A\$/sh	0.31	0.31	0.28	0.50	0.39	0.61	0.72
Issue at A\$0.50/sh							
Disc Rate	27.0%	15.0%	10.5%	10.5%	10.5%	10.5%	10.5%
NPV A\$/sh	0.31	0.31	0.41	0.73	0.53	0.81	0.96

Source: Long Term consensus commodity prices from Consensus Economics, the balance are Rawson Lewis estimates

There are four major variables relevant to the valuation of Boab:

1. Commodity price assumptions (Table 1 includes Spot, long term consensus forecasts, and the Rawson Lewis base case, which are the CY21 averages)
2. Mine plan assumptions (Table 1 includes the 2020 PFS, and the Rawson Lewis estimate of the upcoming DFS)
3. Issue price of the major capital raise to fund the development of Sorby Hills that should follow the publication of the DFS (Table 1 assumes two issue price assumptions A\$0.25/sh and A\$0.50/sh)
4. Discount rate used to discount the future project cash flows

Market appears to price Boab on long term consensus prices and the 2020 PFS mine plan

The market appears to be pricing Boab on the PFS mine plan assuming a share issue at A\$0.25/sh, long term consensus price forecasts and a discount rate of 9%pa, which generates a share valuation of A\$0.31/sh, equal to the current market price (Table 1 Scenario 2).

If this is what the market is doing, then as the market clarity on the DFS increases, and if we are correct in assuming a 3Mt addition to the mine plan, then on the same assumptions (ie issue A\$0.25/sh, spot prices, 9% discount rate), the valuation would increase to A\$0.44/sh (A\$0.39/sh at 10.5% discount rate in Scenario 5).

If the market recognises the value added by the resource expansion, the share price should appreciate, permitting the share issue price to be increased, and if the issue was at A\$0.50/sh, the valuation at Long Term consensus would be A\$0.53/sh (Table 1 Scenario 5).

However, the long term consensus for lead and silver is less than the average of the last five or last three years of average actuals, and a long way below current spot prices.

The market usually prices mining stocks at spot prices, which dramatically lift valuations

It is unusual for the market to place such belief in consensus commodity forecasts, given it usually prices mining companies at either spot prices flat forever, or on the commodity price forward curve available from futures markets.

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If we apply spot prices of lead, silver and the AUDUSD on 4 January 2022 in constant in real terms dollars to our valuation model based on the 2020 PFS mine plan and costs only, to get a valuation equal to the current share price we need to apply a discount rate of 27% (Table 1 Scenario 1) if the major share issue is at A\$0.50/sh, and 19% if the major issue price is A\$0.25/sh. Both these discount rates are too high relative to the riskiness of the project.

At spot prices, our valuation of Boab is A\$0.72/sh if the major issue is at A\$0.25/sh or A\$0.96/sh if the major issue is at A\$0.50/sh.

The Rawson Lewis base case valuation of A\$0.81/sh is based on:

- an Issue price of A\$0.50/sh,
- 10.5% discount rate,
- an additional 3mt pr ore in the mine plan plus allowance for exploration upside from the southern leases and Manbarrum, and
- commodity assumptions equal to the last 12 months average actuals.

If we assume a major issue price of A\$0.25/sh, the valuation on our assumptions will be A\$0.62/sh, well above A\$0.50/sh, which is why we assume an issue price of A\$0.50/sh in our valuation.

Derisking the Sorby Hills project is under way

On 19 November 2021. Boab reported metallurgical recoveries as good as or better than assumed in the PFS, which we have reported on previously, and on 17 December 2021, the company reported a resource increase sufficient to support the 3Mt increase we were assuming.

Even if the market refuses to recognise the continuing lead price strength, the share price appreciation implied in the derisking of the project should be lifting the current share price.

New Resource confirms our estimated Mine Plan increase of 3Mt

The Measured and Indicated Resources have increased from 20.8Mt in June 2020 to 23.6Mt in December 2021, up 2.8Mt or 13.5%.

Table 2 History of Resource growth

	Mt	Pb %	Ag g/t	Pb Kt	Ag Moz
All Resources					
Dec-21	47.3	3.1%	35	1466	53.2
Apr-21	44.9	3.2%	32	1437	46.2
Jun-20	44.1	3.3%	38	1455	53.9
Measured & Indicated					
Dec-21	23.6	3.5%	39	815	29.4
Apr-21	22.1	3.5%	39	779	27.9
Jun-20	20.8	3.6%	40	757	26.7

Source: RXL releases Resource 2 June 2020 PFS 25 Aug 2020, Resource 6 April 2021, Resource 17 December 2021

Growth in metal contained in the Measured and Indicated Resources likely to feed into the mine plan has increased from 757Kt lead to 815Kt up 7.7% and silver from 26.7Moz to 29.4Moz up 10.1%.

The Mine Plan for the 2020 Preliminary Feasibility Study was based on the 2020 Resource and included Measured and Indicated Resources from B, Omega and Norton deposits. The additional drilling since 2020 has added 2.2Mt of additional Measured and Indicated Resources to those deposits, plus an

additional 1.0Mt of Indicated Resources to the Beta deposit, supporting a 3.2Mt increase in Resources from those four deposits, which we believe will feed into the mine plan.

In our valuation model, we have assumed that the DFS Mine Plan will process 17.8Mt at 3.6g/t lead and 36g/t silver, compared to the PFS Mine Plan of 14.8Mt at 3.6% lead and 40g/t silver

In Table 3, we take the 2020 conversion ratios from Measured and Indicated Resource to Reserve, and apply them to the December 2021 Resource. For B, Omega, and Norton deposits, we have used the same conversion ratios as occurred in 2020, and for Alpha, the Norton ratios were used, and for Beta, we used the B deposit ratios. The Alpha and Beta ratios were selected based on the comparison of grade for the same Resource category.

Table 3 Estimating Mid 2022 mine plan

Classification by Deposit	Resource Dec 2021			2020 Conversion			Estimated Mine Plan		
	Mt	Pb %	Ag g/t	Mt	Pb %	Ag g/t	Mt	Pb %	Ag g/t
A									
Inferred	0.6	5.3%	23						
Sub Total	0.6	5.3%	23						
B									
Measured	1.4	3.8%	19	110%	85%	83%	1.5	3.2%	15.8
Indicated	1.3	3.4%	21	96%	80%	83%	1.3	2.7%	17.5
Sub Total	2.7	3.6%	20						
Omega									
Measured	8.5	3.3%	37	98%	95%	96%	8.3	3.1%	35.4
Indicated	5.8	3.5%	34	60%	97%	100%	3.5	3.4%	34.0
Inferred	2.9	2.7%	26						
Sub Total	17.2	3.3%	34						
Norton									
Measured	2.8	4.1%	75	88%	93%	99%	2.5	3.8%	74.1
Indicated	2.1	3.2%	38	9%	103%	126%	0.2	3.3%	48.0
Inferred	16.2	2.5%	27						
Sub Total	21.1	2.8%	34						
Alpha									
Indicated	0.7	2.6%	41	9%	103%	126%	0.1	2.7%	51.8
Inferred	0.8	3.6%	86						
Sub Total	1.5	3.1%	64						
Beta									
Indicated	1.0	4.1%	42	110%	85%	83%	1.1	3.5%	35.0
Inferred	3.2	3.4%	43						
Sub Total	4.2	3.6%	43						
Total Resource									
Measured	12.6	3.5%	43				12.3	3.3%	40.6
Indicated	11.0	3.4%	34				6.1	3.3%	31.4
Inferred	23.6	2.7%	31						
Total	47.3	3.1%	35				18.4	3.3%	37.6
2020 Reserve							13.6	3.6%	40.2

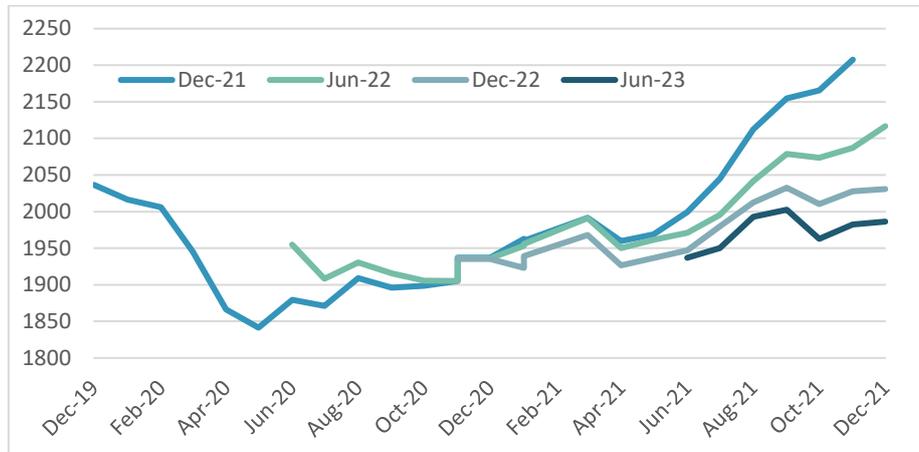
Source: RXL Resource release 17 December 2021, conversion ratios calculated from the PFS 25 Aug 2020 release. For B deposit, the over 100% conversion of tonnes can be the result of dilution (ie mining waste) which would also causes the fall in grade.



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Lead price dynamics

Figure 1 Forecast history for lead prices in four selected periods



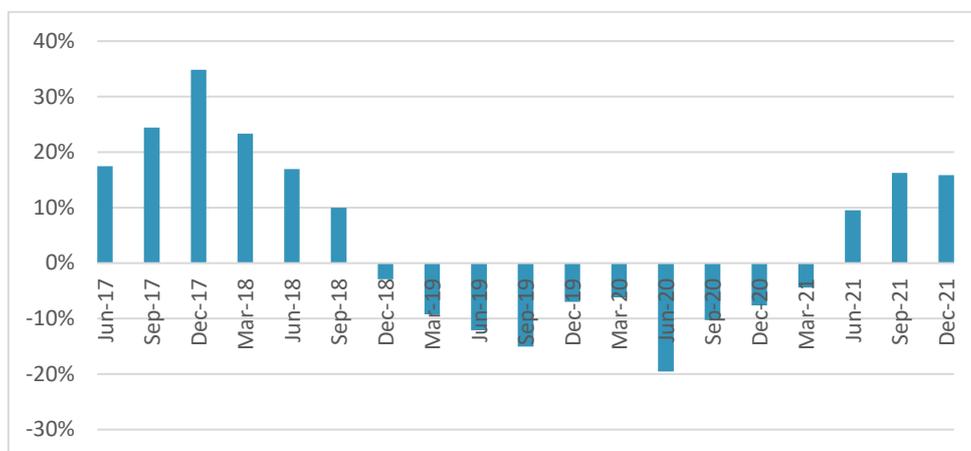
Source: Consensus Economics

The chart above shows the history of lead price forecasts for four selected quarters over time. For example, the consensus price forecast for the December 2021 quarter started off at US\$2040/tonne in forecasts made in December 2019, reached a low in May 2020 forecasts and has risen in subsequent forecasts. Likewise, the forecasts for other months have also risen, but to a lesser extent.

The likelihood that current forecasts are wrong is very high. The main question is how big is the error, and will prices be higher or lower than forecast.

The chart below shows the actual realised lead price for each quarter since June 2017, divided by the consensus estimate 12 months before. While the time frame is relatively short, there are long periods of prices being upgraded, and downgraded. The lead price appears to be in an upgrading phase at present as the world recovers from COVID, and given the world is only four to five quarters into the recovery, it is likely there will be four to eight more quarters of upgrading to come.

Figure 2 Forecasting error 12 months out for the LME lead price



Source: Consensus Economics

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