

Boab Metals Ltd (BML)

Rating: Buy | Risk: High | Price Target: \$1.08

Clean, lean, and green; Sorby Hills moving towards a Final Investment Decision

Key Information

Current Price (\$ps)	0.37
12m Target Price (\$ps)	1.08
52 Week Range (\$ps)	0.28 - 0.48
Target Price Upside (%)	196.8%
TSR (%)	196.8%
Reporting Currency	AUD
Market Cap (\$m)	56
Sector	Materials
Avg Daily Volume (m)	0.1
ASX 200 Weight (%)	0%

Fundamentals

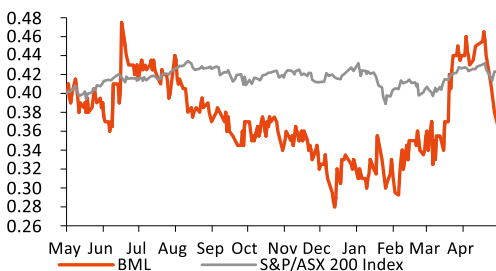
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	0	224
NPAT (\$m)	(5)	(4)	(4)	57
EPS (cps)	(0.3)	(2.5)	(1.8)	19.9
EPS Growth (%)	nm	nm	29.8%	nm
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	100%	100%	100%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	nm	(14.6)	(20.8)	1.8
EV/EBITDA (x)	(10.6)	(13.3)	(26.6)	0.4
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 (%)	(16.2%)	(1.7%)	11.0%	(16.8%)
Absolute (%)	(17.0%)	2.8%	15.9%	(11.0%)
Benchmark (%)	(0.8%)	4.5%	4.9%	5.8%



Price performance indexed to 100

Source: FactSet

Major Shareholders

Villiers Queensland	10.6%
Zero Nominees	8.4%
Board and Management	4.0%
Citicorp Nominees	3.5%
Brent Connolly	2.9%

Andrew Hines | Head of Research

+61 3 9268 1178

andrew.hines@shawandpartners.com.au

Michael Clark | Analyst

+61 3 9268 1148

michael.clark@shawandpartners.com.au

Kristian Stella | Analyst

+61 3 9268 1097

kristian.stella@shawandpartners.com.au

Event

Boab Metals has entered into a Heads of Agreement with Horizon Power to supply electricity to the company's Sorby Hills Lead-Silver Project in Western Australia. Key indicative terms include cleaner and cheaper electricity to be sourced from the Ord River hydroelectric plant versus the previous Build Own Operate diesel solution. Boab is working to finalise a Power Purchase Agreement with Horizon ahead of a Decision to Mine at Sorby Hills in mid-2022.

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%.
- 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%.
- Since the PFS, the size and quality of the resource has increased materially (78% increase in measured resource) and we expect the DFS to outline a larger project. We expect the plant to include a ball mill to take the throughput from 1.5Mtpa to 2.0Mtpa.
- The company has binding offtake agreements ready to sign, but these will now be finalised after the release of the DFS. Some of the offtake agreement include financing offers, but this can be expensive debt, and so the company is sensibly waiting to see where the Northern Australia Infrastructure Facility (NAIF) and commercial debt providers are positioned before finalising the offtakes.
- Key updates from the company recently include;
 - A port Access Agreement has been signed with Cambridge Gulf which secures port access at the Port of Wyndham, 150km by sealed road from Sorby Hills.
 - Drilling results at the Beta Deposit have returned some excellent intercepts including 27m @3.5% Pb & 37 g/t Ag from 34m. Beta was not included in the PFS but will now be brought into the DFS.
 - The company has a cash balance of A\$7.5m (Mar22q) leaving Boab well-funded to FID.
 - The company has entered into a Heads of Agreement with Horizon Power to supply electricity. Key indicative terms include cleaner and cheaper electricity to be sourced from the Ord River hydroelectric plant versus the previous Build Own Operate diesel solution. Boab is working to finalise a Power Purchase Agreement with Horizon ahead of a Decision to Mine.
- The next steps include the completion of the Process Plant design, completion of binding offtake agreements, completing a Definitive Feasibility Study (all expected this quarter). This is followed by finalisation of the debt financing package and a Final Investment Decision in 2Q/3Q 2022.

Recommendation

We retain our Buy recommendation and our A\$1.08ps price target. The project economics for Sorby Hills are exceptional and are likely to improve in the DFS. The project will generate >\$100m of EBITDA per annum, and yet Boab Metals only has a market capitalisation of ~A\$60m. The stock is materially undervalued and should rerate in 2022 as the DFS, offtakes and financing milestones are achieved.

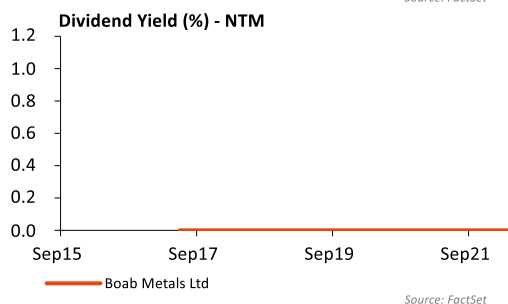
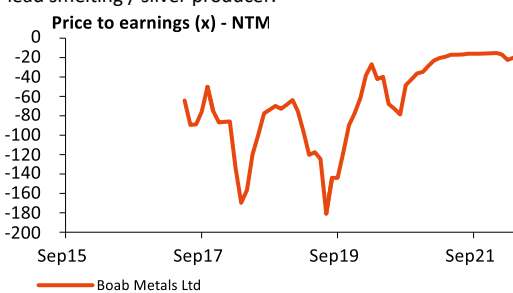
Boab Metals Ltd
Materials
Materials

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.37
Target Price (\$ps)	1.08
52 Week Range (\$ps)	0.28 - 0.48
Shares on Issue (m)	153
Market Cap (\$m)	56
Enterprise Value (\$m)	53
TSR (%)	196.8%

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)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(0.1)	(0.3)	(2.5)	(1.8)	19.9
EPS (Underlying) (cps)	(0.1)	(0.3)	(2.5)	(1.8)	19.9
EPS (Underlying) Growth (%)	42.3%	nm	nm	29.8%	nm
PE (Underlying) (x)	nm	nm	(14.6)	(20.8)	1.8
EV / EBIT (x)	(16.8)	(10.5)	(13.3)	(26.6)	0.5
EV / EBITDA (x)	(16.9)	(10.6)	(13.3)	(26.6)	0.4
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%	100%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(0.6%)	(0.7%)	(6.7%)	(136.8%)	46.9%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	0	224
Other Operating Income	0	0	0	0	0
EBITDA	(3)	(5)	(4)	(2)	119
EBITDA Margin (%)	nm	nm	nm	nm	53.3%
Depreciation & Amortisation	0	(0)	0	0	(9)
EBIT	(3.2)	(5.1)	(4.0)	(2.0)	109.8
EBIT Margin (%)	nm	nm	nm	nm	49.1%
Net Interest	0	0	0	(2)	(1)
Pretax Profit	(3)	(5)	(4)	(4)	109
Minorities	0	0	0	0	19
NPAT Underlying	(3)	(5)	(4)	(4)	57
Significant Items	0	0	0	0	0
NPAT Reported	(3)	(5)	(4)	(4)	57
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(3)	(5)	(4)	(2)	110
Tax Paid	0	0	0	0	0
Net Interest	0	0	0	(2)	(1)
Change in Working Capital	0	0	0	0	(1)
Depreciation & Amortisation	0	(0)	0	0	(9)
Other	(0)	0	0	2	4
Operating Cashflow	(3)	(5)	(4)	(2)	121
Capex	0	0	0	(108)	(72)
Acquisitions and Investments	0	(0)	(2)	(1)	(1)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	(0)	0	0	27	18
Investing Cashflow	(0)	(0)	(2)	(82)	(55)
Free Cashflow	(3)	(5)	(4)	(110)	49
Equity Raised / Bought Back	5	14	0	70	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	110	(25)
Other	(0)	(0)	(0)	(2)	(4)
Financing Cashflow	4	14	(0)	178	(29)
Net Change in Cash	1	10	(6)	94	38
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	3	13	7	101	139
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	116	180
Total Assets	8	19	15	218	319
Accounts Payable	0	1	1	1	0
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	110	85
Total Liabilities	1	2	2	112	118
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(44.9%)	(41.0%)	(25.3%)	(8.3%)	53.1%
Gearing (%)	(58.5%)	(311.2%)	(114.0%)	10.1%	(64.7%)
Net Debt / EBITDA (x)	0.9	2.6	1.7	(4.4)	(0.5)

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 \$180m 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).
- Boab is expected to release a Definitive Feasibility Study (DFS) in 2Q22 before a Final Investment Decision in mid-2022. There will be a 12-18-month construction period and first production in late-2023.
- We model a further A\$180m 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\$70m/A\$110m equity/debt.

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

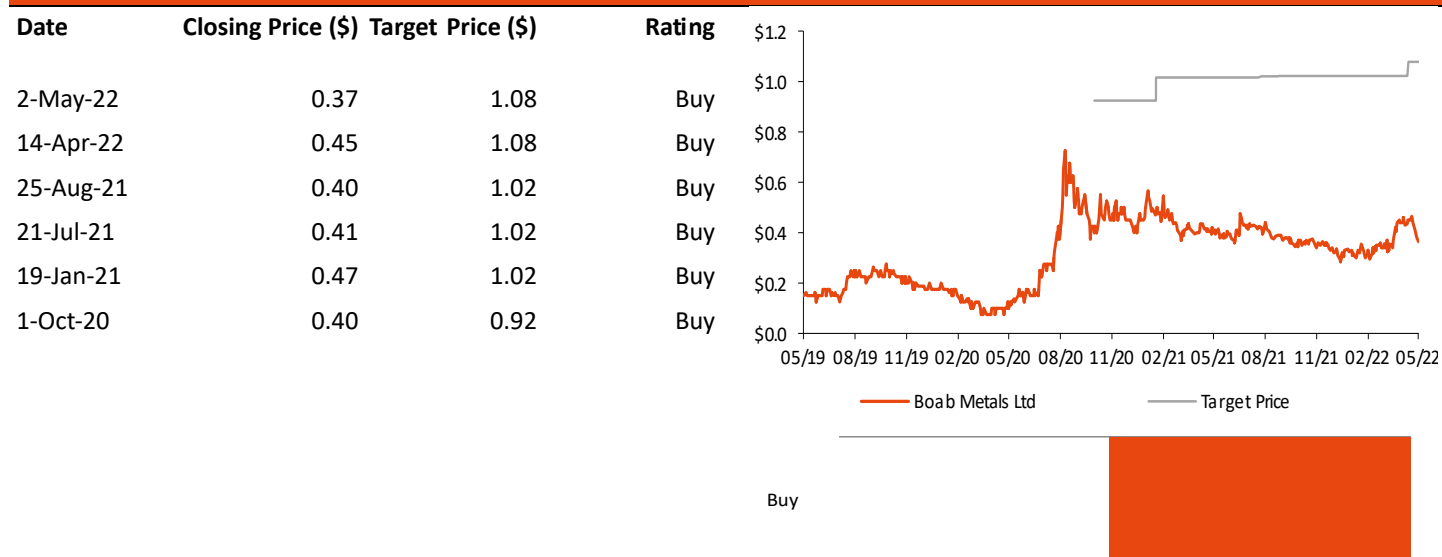
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	100	84%
Hold	17	14%
Sell	2	2%

History of Investment Rating and Target Price - Boab Metals Ltd



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Sydney Head Office	Melbourne	Brisbane	Adelaide	Canberra	Perth	Noosa
Level 7, Chifley Tower	Level 36	Level 28	Level 23	Level 7	Level 20	Suite 11a Q Place
2 Chifley Square	120 Collins Street	111 Eagle Street	91 King William Street	54 Marcus Clarke Street	108 St Georges Terrace	2 Quamby Place
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Adelaide SA 5000	Canberra ACT 2600	Perth WA 6000	Noosa Heads QLD 4567
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300	Telephone: +61 8 9263 5200	Telephone: +61 7 3036 2570
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 198 003	Toll Free: 1800 271 201