

Boab Metals Ltd (BML)

Rating: Buy | Risk: High | Price Target: \$1.00

June quarter update – environmental approval for early works at Sorby Hills

Key Information

Current Price (\$ps)	0.22
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.17 - 0.47
Target Price Upside (%)	353.5%
TSR (%)	353.5%
Reporting Currency	AUD
Market Cap (\$m)	34
Sector	Materials
Avg Daily Volume (m)	0.3
ASX 200 Weight (%)	0%

Fundamentals

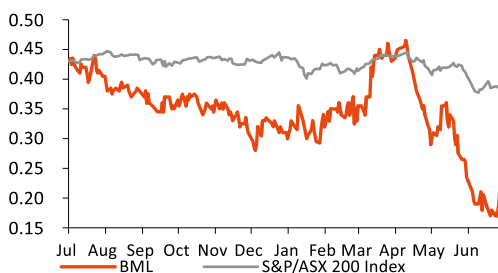
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	0	112
NPAT (\$m)	(5)	(4)	(4)	28
EPS (cps)	(0.3)	(2.5)	(1.8)	9.8
EPS Growth (%)	nm	nm	29.8%	657.9%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	100%	100%	100%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	nm	(8.8)	(12.6)	2.3
EV/EBITDA (x)	(5.3)	(6.7)	(13.4)	0.5
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 (%)	(10.8%)	(28.0%)	(38.1%)	(39.8%)
Absolute (%)	(17.0%)	(35.3%)	(48.8%)	(48.8%)
Benchmark (%)	(6.2%)	(7.3%)	(10.7%)	(9.0%)



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 released its June quarter activity report. Boab continues to progress the Sorby Hills lead/silver project in WA. Key events last quarter include the signing of a power agreement with Horizon Power, the receipt of EPC Contract tenders, and receipt of an amendment to the EPA approval to allow early works to commence. This is a key step to allow site preparation to commence ahead of the wet season.

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 of a 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%.
- Boab Metals is expected to release a Definitive Feasibility Study (DFS) in 2H 2022 following a competitive tender process for the Mining Contract. In our view this is a sensible approach in the current inflationary environment. The Engineering Procurement Construction (EPC) tenders resulted in competitive bids with Boab reporting that costs are in-line with expectations. It is currently difficult to procure competitive contract mining contracts without going to a competitive tender process.
- 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 now expect the plant to include a ball mill to take the throughput from 1.5mtpa to 2.0mtpa and we include that as our base case.
- Boab and Horizon Power have signed a Heads of Agreement to deliver clean power from the nearby Ord River Hydroelectric Plant. The closure of the Argyle Diamond Mine has freed up capacity which Sorby Hills can utilise. Back-up power will be provided by an on-site diesel plant.
- The company has binding offtake agreements ready to sign and these will 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.
- Boab has decoupled the Site Establishment and Early Works approvals from the Main Works approval stream and this provides the flexibility to commence the early works ahead of the wet season. The Western Australia Environment Protection Authority has approved amendments to the existing EPA approval, and once final regulatory clearances have been granted then Boab will move ahead with the competitive tender process for the early works.
- Boab Metals has finished the June quarter with cash of A\$6.4m which leaves it well funded to complete the DFS and move to a Final Investment Decision in 2H22.

Recommendation

We retain our Buy recommendation and price target of A\$1.00ps. 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\$34m. The stock is materially undervalued and should re-rate in 2022 as the DFS, offtakes and financing milestones are achieved.

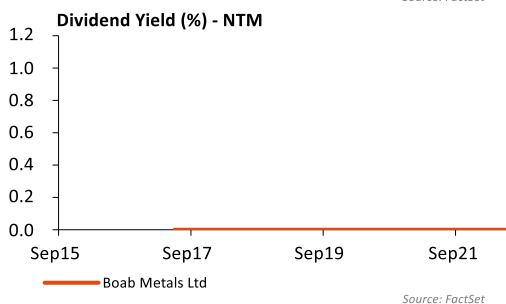
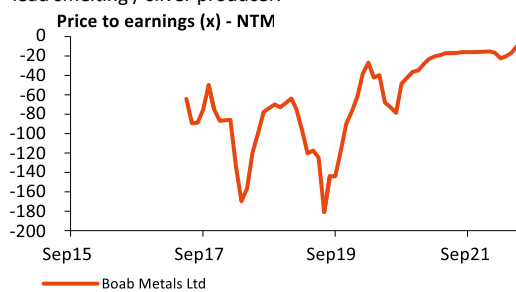
Boab Metals Ltd
Materials
Materials

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.22
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.17 - 0.47
Shares on Issue (m)	153
Market Cap (\$m)	34
Enterprise Value (\$m)	27
TSR (%)	353.5%
Valuation per share (cps) (AUD)	1.00
Valuation (\$m)	286.60

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)	9.8
EPS (Underlying) (cps)	(0.1)	(0.3)	(2.5)	(1.8)	9.8
EPS (Underlying) Growth (%)	42.3%	nm	nm	29.8%	657.9%
PE (Underlying) (x)	nm	nm	(8.8)	(12.6)	2.3
EV / EBIT (x)	(8.5)	(5.3)	(6.7)	(13.4)	0.5
EV / EBITDA (x)	(8.5)	(5.3)	(6.7)	(13.4)	0.5
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%)	(11.2%)	(205.3%)	(34.2%)
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	0	112
Other Operating Income	0	0	0	0	0
EBITDA	(3)	(5)	(4)	(2)	59
EBITDA Margin (%)	nm	nm	nm	nm	52.4%
Depreciation & Amortisation	0	(0)	0	0	(5)
EBIT	(3.2)	(5.1)	(4.0)	(2.0)	53.9
EBIT Margin (%)	nm	nm	nm	nm	48.2%
Net Interest	0	0	0	(2)	(0)
Pretax Profit	(3)	(5)	(4)	(4)	54
Minorities	0	0	0	0	9
NPAT Underlying	(3)	(5)	(4)	(4)	28
Significant Items	0	0	0	0	0
NPAT Reported	(3)	(5)	(4)	(4)	28
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(3)	(5)	(4)	(2)	54
Tax Paid	0	0	0	0	0
Net Interest	0	0	0	(2)	(0)
Change in Working Capital	0	0	0	0	(1)
Depreciation & Amortisation	0	(0)	0	0	(5)
Other	(0)	0	0	2	4
Operating Cashflow	(3)	(5)	(4)	(2)	61
Capex	0	0	0	(98)	(83)
Acquisitions and Investments	0	(0)	(2)	(1)	(1)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	(0)	0	0	24	21
Investing Cashflow	(0)	(0)	(2)	(74)	(63)
Free Cashflow	(3)	(5)	(4)	(99)	(22)
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)	102	(31)
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	3	13	7	109	78
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	106	185
Total Assets	8	19	15	215	263
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	101
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(44.9%)	(41.0%)	(25.3%)	(8.3%)	30.1%
Gearing (%)	(58.5%)	(311.2%)	(114.0%)	1.2%	5.8%
Net Debt / EBITDA (x)	0.9	2.6	1.7	(0.5)	0.1

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 2H22 before a Final Investment Decision. There will be a 12-18-month construction period and first production in 2024.
- The Sorby Hills Measured and Indicated Resources is 23.6Mt at 4.6% Pb Eq (3.5% Pb, 39g/t Ag) and 0.4% Zn containing 0.8Mt Pb, 0.1kt Zn and 30Moz Ag. The resource is likely to increase as further drilling and regional exploration is completed.
- 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	108	89%
Hold	12	10%
Sell	1	1%

History of Investment Rating and Target Price - Boab Metals Ltd



Disclaimer

Shaw and Partners Limited ABN 24 003 221 583 (“Shaw”) is a Participant of ASX Limited, Cboe Australia Pty Limited and holder of Australian Financial Services Licence number 236048.

ANALYST CERTIFICATION: The Research Analyst who prepared this report hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about the Company and its financial products. Neither Shaw nor its Research Analysts received any direct financial or non-financial benefits from the company for the production of this document. However, Shaw Research Analysts may receive assistance from the company in preparing their research which can include attending site visits and/or meetings hosted by the company. In some instances the costs of such site visits or meetings may be met in part or in whole by the company if Shaw considers it is reasonable given the specific circumstances relating to the site visit or meeting. As at the date of this report, the Research Analyst does not hold, either directly or through a controlled entity, securities in the Company that is the subject of this report, or where they do hold securities those interests are not material. Shaw restricts Research Analysts from trading in securities outside of the ASX/S&P100 for which they write research. Other Shaw employees may hold interests in the company, but none of those interests are material.

DISCLAIMER: This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs (“Personal Circumstances”). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your Personal Circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client adviser. This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so. This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. The research report is current as at the date of publication until it is replaced, updated or withdrawn. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it. If you rely on this report, you do so at your own risk. Any projections are indicative estimates only and may not be realised in the future. Such projections are contingent on matters outside the control of Shaw (including but not limited to market volatility, economic conditions and company-specific fundamentals) and therefore may not be realised in the future. Past performance is not a reliable indicator of future performance. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence.

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.

IMPORTANT INFORMATION TO CONSIDER: It is important that before making a decision to invest in a Shaw Managed Accounts, a managed fund, an exchange traded fund, an individual hybrid security or listed debt instrument that you read the relevant Product Disclosure Statement (“PDS”). The PDS will contain information relevant to the specific product, including the returns, features, benefits and risks. The PDS can be found at: www.shawandpartners.com.au/media/1348/shawmanagedaccounts_pds.pdf.

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.

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.

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