

Boab Metals Ltd (BML)

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

Sorby Hills Lead-Silver-Zinc Project - progressing towards FID

Key Information

Current Price (\$ps)	0.18
12m Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.17 - 0.47
Target Price Upside (%)	470.2%
TSR (%)	470.2%
Reporting Currency	AUD
Market Cap (\$m)	27
Sector	Materials
ASX 200 Weight (%)	0%

Fundamentals

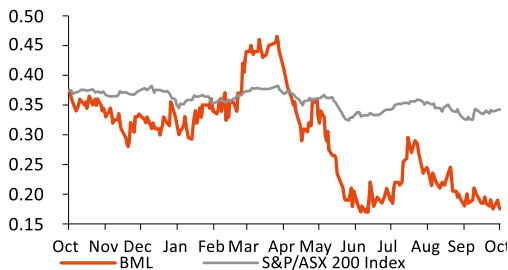
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	0	112
NPAT (\$m)	(5)	(4)	(4)	28
EPS (cps)	(0.3)	(2.5)	(1.8)	9.8
EPS Growth (%)	nm	nm	29.8%	657.9%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	100%	100%	100%

Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	nm	(7.0)	(10.0)	1.8
EV/EBITDA (x)	(4.0)	(5.0)	(9.9)	0.3
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 (%)	(6.2%)	(23.6%)	(10.4%)	(44.7%)
Absolute (%)	(2.8%)	(27.1%)	(10.3%)	(53.3%)
Benchmark (%)	3.4%	(3.5%)	0.1%	(8.6%)



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%

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Event

Boab Metals has released its September quarter activities and cashflow report. The company continues to progress the Sorby Hills Lead-Silver-Zinc Project and is expected to release a Definitive Feasibility Study in the December quarter. In our view Sorby Hills is one of the best undeveloped metals projects amongst the emerging ASX resource companies with exceptional economics.

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 before the end of 2022 following a competitive tender process for the Sorby Hills Project Early Works, Process Plant EPC and Mining Contracts. 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.
- During the quarter Boab successfully completed the Phase VI drilling program which will support conversion of Resources to Reserves with the DFS and extend the Resource base at the Beta deposit.
- 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.
- During the quarter Boab secured a 178 room Accommodation Camp for A\$1.29m which is significantly cheaper than buying a new camp. The camp will be relocated to Sorby Hills during the December quarter.
- Boab Metals has finished the September quarter with cash of A\$4.6m which leaves it well funded to complete the DFS and move to a Final Investment Decision. If the company decides to commence with the Early Works program it will require additional funding. The alternative is to wait until after the upcoming wet season.

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\$27m. The stock is materially undervalued and should re-rate as the DFS, offtakes and financing milestones are achieved.

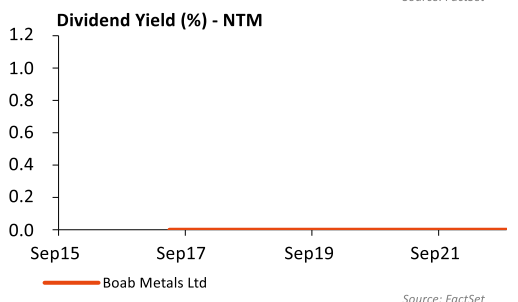
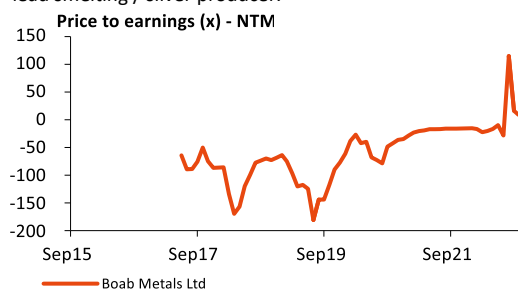
Boab Metals Ltd
Materials
Materials

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.18
Target Price (\$ps)	1.00
52 Week Range (\$ps)	0.17 - 0.47
Shares on Issue (m)	153
Market Cap (\$m)	27
Enterprise Value (\$m)	20
TSR (%)	470.2%
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	(7.0)	(10.0)	1.8
EV / EBIT (x)	(6.3)	(3.9)	(5.0)	(9.9)	0.4
EV / EBITDA (x)	(6.3)	(4.0)	(5.0)	(9.9)	0.3
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%)	(14.0%)	(258.1%)	(43.0%)
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	115	88%
Hold	15	12%
Sell	0	0%

History of Investment Rating and Target Price - Boab Metals Ltd



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