

# Boab Metals Limited

## (BML \$0.20) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	28 <sup>th</sup> October 2022	\$0.70/sh ▼ from \$0.75/sh

### Sorby Hills progressing towards decision to mine

#### Event

Boab Metals (BML) continues to progress its 75%-owned Sorby Hills Lead-Silver Project (WA) towards a decision to mine. Latest quarterly activities (SepQ) include acquisition of a camp, updates to the Sorby EPA approvals, and completion of the tender process for early works, process plant EPC and OP mining contract. DFS due this quarter (DecQ), a major milestone for the Company.

#### Impact

- Sorby Hills is in its final stages of development studies for a large-scale open pit operation; DFS anticipated DecQ (Q4CY22), project financing and the decision to mine is targeted for 1HCY23.
- As part of DFS activities, BML is investigating a potential project scale increase above the 1.5Mtpa (PFS). A 2.0Mtpa project could provide a +30% increase in metal production, while lowering costs via scale of economy benefits.
- The project has a large and growing resource base (1.5Mt lead, 53Moz silver) to convert for higher reserves in the DFS and justify project scale upgrade.
- EPC tenders for the plant build recently received, with short-listed firms now refining submissions ahead of declaration of preferred contractor; also providing pricing inputs for the DFS capex.
- Other key project contracts such as early works and mining also completed, with proposals being assessed. We assume mining costs will be up, due to higher diesel prices and contractor rates. However, some potential savings from the clean Ord River hydro-electric power purchase agreement with Horizon, which is being finalised. A good ESG tick, while delivering material economic benefits to the project.
- On the permitting front, updated EPA approval received for early works: all-weather road access; expanded processing plant and associated infrastructure; and construction of the accommodation village at site. Final clearance and the close out of the mining proposal for the early works from DMIRS expected soon.
- Strong offtake demand for BML's share of Sorby lead-silver concentrates, with domestic and international traders and smelters shortlisted ahead of finalisation in 1HCY23.
- BML remains in discussions with NAIF and EFA (Federal government agencies) to provide debt financing for the project development. Preliminary discussion also underway with a suite of commercial banks for additional debt funding (subject to DFS).
- Lead prices have been volatile in US\$ terms. LME inventories remain low, with reduced smelter capacity (both for refined and recycled metal) expected to tighten supply, at least in the short-term. Demand largely driven by replacement batteries, which could see some seasonal demand especially in the colder climates.
- BML's current cash ~A\$4.6m, covers costs to completed the DFS and progress financing discussions. Additional funding will be required if early works start before completion of project financing.

Boab Metals Limited	Year End 30 June	
Share Price	0.200	A\$/sh
Price Target	0.70	A\$/sh
Valuation	0.72	A\$/sh
		NPV10

Shares on issue	153m, diluted *
Market Capitalisation	31 A\$m
Enterprise Value	26 A\$m
Debt	0 A\$m
Cash	5 A\$m
Largest Shareholder	Villiers QLD 10.1%

Production F/Cast	2023F	2024F	2025F
Lead Prod'n (kt)	0	0	30
Cash Cost (A\$/lb)	0.00	0.00	0.46
Cash Cost (US\$/lb)	0.00	0.00	0.40

Assumptions	2023F	2024F	2025F
Pb Price US\$/lb	0.93	0.94	0.93
AUDUSD	0.66	0.71	0.73

Key Financials	2023F	2024F	2025F
Revenue (A\$m)	0	1	108
EBITDA (A\$m)	-5	-5	42
NPAT (A\$m)	-8	-14	11
Cashflow (A\$m)	-8	-14	24

CFPS (Ac)	-5	-9	16
P/CFPS (x)	na	na	1

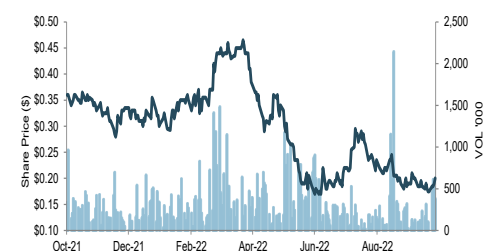
EPS (Ac)	-5	-9	7
EPS growth (%)	na	na	2
PER (x)	-4	-2	3

EV:EBITDA (x)	na	na	4.5
EV:EBIT (x)	na	na	6.6

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	89%	72%	68%
Interest Cover (x)	na	na	168%

#### Share Price Chart



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# Boab Metals Limited

(BML \$0.20) Speculative Buy

EUROZ HARTLEYS

## Action

We maintain our **Speculative Buy** recommendation. Our valuation has been derived from PFS inputs, but we have adjusted for the expected increase in project scale and current inflationary cost environment. We will update our modelling upon release of the DFS. Latest Valuation \$0.72/sh (P/NAV 0.3x) and latest Price Target \$0.70/sh (down from \$0.75/sh). Spot NAV \$0.89/sh (upside potential).

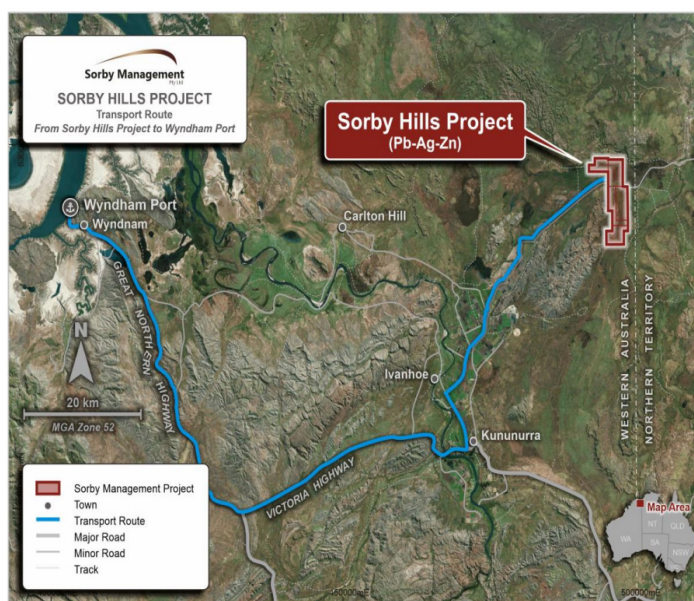
## Key Catalysts

- Sorby Hills DFS - Q4CY22
- Offtake agreements - 1HCY23
- Project financing - 1HCY23
- FID and final regulatory approvals - 1HCY23
- Construction contracts awards
- Construction commences - 2HCY23

## Analysis

- **Boab Metals' (BML) Sorby Hills Project** is located ~50km NE of Kununurra, Kimberley region, WA.
  - The lead-silver project is 75%-owned by BML, with 25% contributing JV partner, Henan Yuguang; China's largest lead smelting company and major silver producer.
  - The base metal project is in its final stages of development studies for a large-scale open pit operation; DFS due Q4CY22, and FID 1HCY23.
  - Project well located, nearby regional centre, sealed access roads (recently upgraded by the Federal/State government work programs), fully sealed roads for the proposed concentrate transport from Project to Port (Wyndham), a distance of ~150km.
  - Existing permitting (with granted MLs) which has been updated, lowers development hurdles.

Fig 1. Project Location



Source: BML

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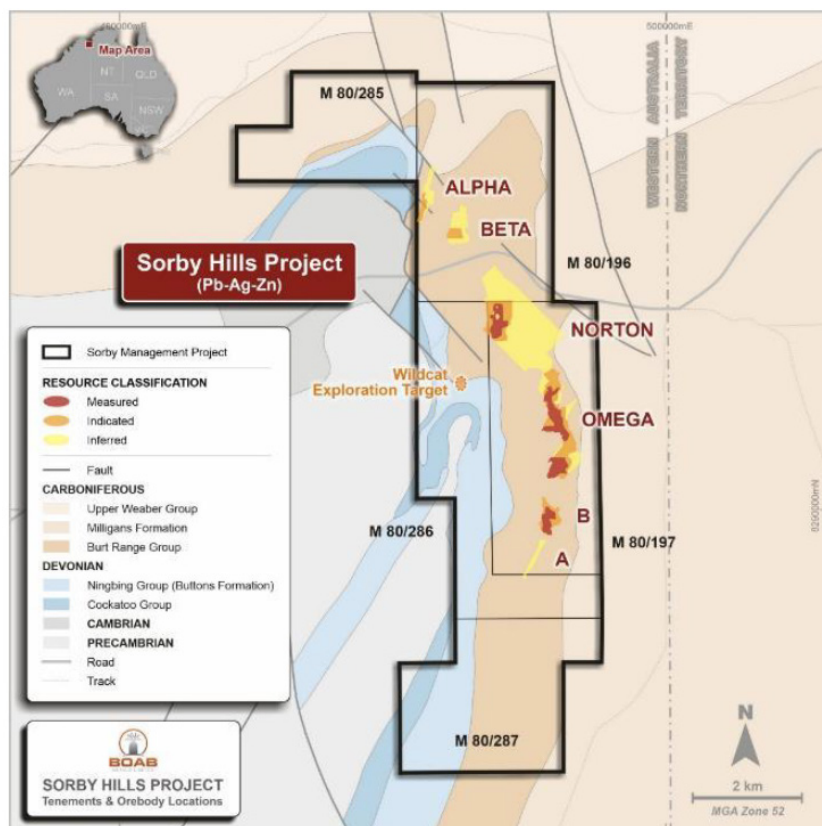
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## Boab Metals Limited

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- BML recently completed its Phase VI drilling program at Sorby, targeting reserve growth at both Beta and Norton deposits, along with a number of targets within the current mining lease and also undertake initial drilling within the Eight Mile Creek tenure (100% BML).
  - A total 3,020m from 28 RC holes drilled with assays pending in the next 4-6 weeks
  - Current resource estimate: **47.3Mt @ 4.1% PbEq** (3.1% Pb and 0.4% Zn and 35g/t Ag) for contained 1,465kt of lead and 53koz of silver; 49% M+Ind.

Fig 2. Project Resources - 17Dec'21



Source: BML

- BML recently secured a 178 room accommodation camp for the project.
  - The camp has a cost of A\$1.29m, with payments staged: A\$259k deposit upfront and A\$1.04m balance (due Q4CY22).
  - The accommodation camp is located over the border in the NT (Cosmos mine) some 600km away, with the rooms to be moved, refurbished for the Sorby construction phase.
  - Associated infrastructure in the Sorby PFS was ~A\$20.5m, and the latest purchase is expected to provide saving relative to a new camp or one lease financed.
- Sorby Hills PFS (Aug'20) assumed an open pit operation processing 1.5Mtpa over 10-years for 50ktpa lead and 1.5Mozpa silver production at C1 Costs of US\$0.40/lb Pb.
  - A project scale change to circa 2.0Mtpa provides a potential 33% increase for 65ktpa lead and 2.0Moz silver (100%) or 50ktpa lead and 1.5Moz silver (attr. 75%), assuming grades and recoveries hold.

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### (BML \$0.20) Speculative Buy

- We would expect capex to increase but improved scale of economy benefits lower operating costs. PFS capex for the 1.5Mtpa operation was ~A\$183m and we would assume capex for a 2.0Mtpa operation would increase to total +A\$200-230m, so a -20% increase in capex for +30% improvement in revenue looks attractive, especially on improving base metal (lead) and precious metal (silver) prices.
- Our valuation at this stage is still based on the 1.5Mtpa processing scale, but we will update as studies evolve.
- BML is already in discussions with NAIF and EFA (Federal government agencies) to provide debt financing for the project development; with preliminary discussion also underway with a suite of commercial banks for additional debt funding.

# Boab Metals Limited

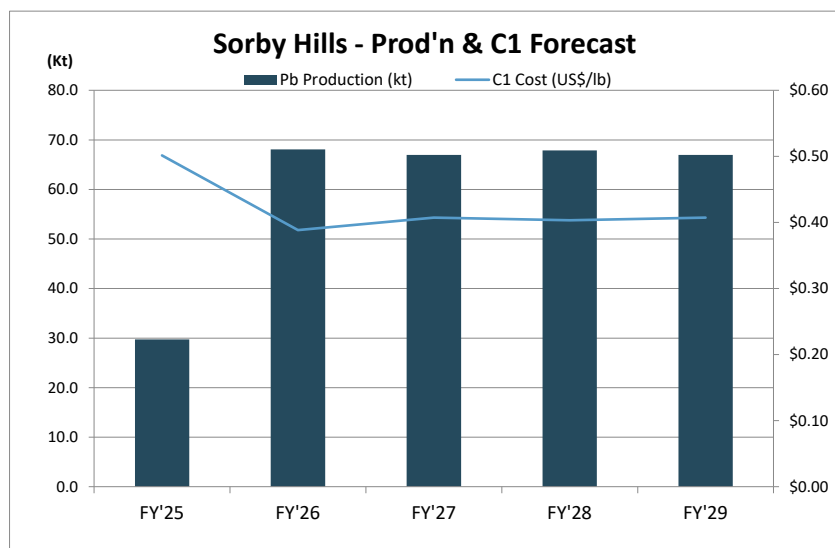
## (BML \$0.20) Speculative Buy

### Key Variables

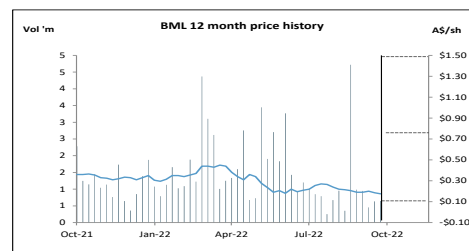
Val/sh		Lead \$								
\$0.72		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.05	\$0.13	\$0.22	\$0.30	\$0.38	\$0.46	\$0.55	\$0.63	\$0.71
	10%	\$0.14	\$0.22	\$0.31	\$0.40	\$0.48	\$0.57	\$0.65	\$0.74	\$0.83
	5%	\$0.23	\$0.32	\$0.41	\$0.50	\$0.59	\$0.68	\$0.77	\$0.86	\$0.95
	0%	\$0.34	\$0.43	\$0.53	\$0.62	\$0.72	\$0.81	\$0.90	\$1.00	\$1.09
	-5%	\$0.45	\$0.55	\$0.65	\$0.75	\$0.85	\$0.95	\$1.05	\$1.15	\$1.25
	-10%	\$0.58	\$0.69	\$0.79	\$0.90	\$1.00	\$1.11	\$1.21	\$1.32	\$1.42
-15%	\$0.72	\$0.84	\$0.95	\$1.06	\$1.17	\$1.28	\$1.39	\$1.50	\$1.61	

Val/sh		Silver \$								
\$0.72		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.26	\$0.29	\$0.32	\$0.35	\$0.38	\$0.41	\$0.44	\$0.47	\$0.50
	10%	\$0.36	\$0.39	\$0.42	\$0.45	\$0.48	\$0.51	\$0.54	\$0.57	\$0.61
	5%	\$0.46	\$0.50	\$0.53	\$0.56	\$0.59	\$0.63	\$0.66	\$0.69	\$0.72
	0%	\$0.58	\$0.61	\$0.65	\$0.68	\$0.72	\$0.75	\$0.78	\$0.82	\$0.85
	-5%	\$0.71	\$0.74	\$0.78	\$0.82	\$0.85	\$0.89	\$0.92	\$0.96	\$0.99
	-10%	\$0.85	\$0.89	\$0.93	\$0.96	\$1.00	\$1.04	\$1.08	\$1.11	\$1.15
-15%	\$1.01	\$1.05	\$1.09	\$1.13	\$1.17	\$1.21	\$1.25	\$1.29	\$1.33	

Euroz Forecast	FY'2022	FY'2023	FY'2024	FY'2025
Silver (US\$/oz)	\$24	\$20	\$20	\$21
Lead (US\$/lb)	\$0.98	\$0.93	\$0.94	\$0.93
AUDUSD	\$0.73	\$0.66	\$0.71	\$0.73



### Our Share Price Sensitivity



### Our Market Sensitivity

Price Target \$0.70/sh  
Valuation \$0.72/sh

#### Bull Scenario \$1.50/sh

Sorby Hills is successfully developed as a strong margin lead producer (with silver credits). Lead and Silver prices above our LT price assumptions. Project scale increases for higher attributable production levels.

#### Base Scenario \$0.70/sh

Sorby Hills delivers a positive DFS in line of expectations by Q4CY22. The project can be successfully funded into production for construction to commence in 2HCY23. We now assume first production in late FY25.

#### Bear Scenario \$0.10/sh

Sorby Hills project stalls due to falling lead and silver prices. Financing becomes problematic.

### Company Summary

Boab Metals Ltd has a 75% interest in the Sorby Hills Lead-Silver Project located in the Kimberley region of WA. An optimised PFS (Aug'20) high-lighted annual production (1.5Mtpa) of 50kt of Pb and 1.5Moz of Ag for 10 yrs. A DFS is underway and due for release in Q4CY22. The DFS will investigate a potential increase in processing scale, which should enhance the project economics by lowering operating costs (scale of economy benefits) for higher production margins and cash flows. We now assume first production in FY25.

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The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz Hartleys.

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## Market Statistics

		Year End 30 June	
<b>Share Price</b>	<b>\$0.200</b>	<b>A\$/sh</b>	
Issued Capital			<b>Directors</b>
Fully Paid Ord	153.5	m	Gary Comb Chairman
Options (var. prices)	-	m	Simon Noon MD & CEO
<b>Total Dil. FPOrd</b>	<b>153.5</b>	<b>m</b>	Richard Monti NE Dir
			Andrew Parker NE Dir
			Jenny Monzu Comp Sec
Market Cap. (dil)	\$31	m	C. Nobbs GM - Sorby Hills
Enterprise Value	\$26	m	Simon Dorling Expl Man
Cash	\$4.6	m	Richard Flanagan Proj Eng
Debt	\$-	m	<b>Shareholders</b>
			Villiers QLD 10.1%

## Asset Valuation

	A\$m	A\$/sh
(+) 75% Sorby Hills Project (risk adj 70%)	85	0.56
(-) Corporate	(20)	(0.13)
(+/-) Hedging	-	-
(+) Exploration	40	0.26
(+) Unpaid Capital	-	-
(+) Cash	4.6	0.03
(-) Debt	-	-
<b>Total @ 10%</b>	<b>110</b>	<b>0.72</b>
<b>Spot (US\$0.86/lb Pb, 0.639 AUD:US\$)</b>	<b>136</b>	<b>0.89</b>

## F/Cast Production (A\$m)

	2022A	2023F	2024F	2025F
<b>Sorby Hills 100%</b>				
<b>Pb in Conc.</b>	<b>Kt</b>	-	-	-
<b>Ag in Conc.</b>	<b>Moz</b>	-	-	-
Cash Costs (C1)	A\$/lb	-	-	-
Cash Costs (incl Roy)	A\$/lb	-	-	-
By production credits	A\$/lb	-	-	(0.42)
<b>Total Costs</b>	<b>A\$/lb</b>	-	-	-
<b>Total Costs</b>	<b>US\$/lb</b>	-	-	-

## Assumptions

Spot Pb Price	US\$/lb	0.98	0.93	0.94	0.93
Spot Ag Price	US\$/lb	23.58	19.70	20.00	21.00
FX Rate ass'd	A\$/US\$	0.73	0.66	0.71	0.73

## Ratio Analysis (A\$m)

	2022F	2023F	2024F	2025F
Cashflow	-2	-8	-14	24
Cashflow Per Share	-1	-5	-9	16
Cashflow Ratio	na	na	na	1.3
Earnings	-7	-8	-14	11
Earnings Per Share	-4	-5	-9	7
EPS Growth	na	na	na	175%
P/e Ratio	-5	-4	-2	3

Enterprise Value	24	194	200	188
EV/EBITDA	na	na	na	4.5
EV/EBIT	na	na	na	6.6

Net Debt/(Net Debt + Equity)	-1.5	0.9	0.7	0.7
Interest Cover	na	na	na	1.7
EBIT Margin	na	na	-564%	26%
Return on Equity	na	na	-22%	15%
Return on Assets	na	na	-6%	4%

Dividend per Share	0	0	0	0
Dividend Payout Ratio	0	0	0	0
Dividend Yield	0	0	0	0
Dividend Franking	100%	100%	100%	100%

## Profit and Loss (A\$m)

	2022F	2023F	2024F	2025F
(+) Pb Revenue	-	-	-	80
(+) Ag Revenue	-	-	-	27
(+/-) Hedging Revenue	-	-	-	-
(+) Interest Income	0	0	1	0
(+) Other Revenue	0	-	-	-
<b>Total Revenue</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>108</b>
Operating Costs	(1)	-	-	(61)
Dep/Amort	(0)	-	-	(13)
WriteOff (expl'n)	(5)	-	-	-
O/H + New Bus Dev	(1)	(5)	(5)	(5)
Provisions	-	-	-	-
EBITDA	(7)	(5)	(5)	42
EBIT	(7)	(5)	(5)	28
Interest Expense	(0)	(6)	(15)	(14)
NPBT	(7)	(10)	(19)	14
Tax	-	-	-	-
Minority Interest	-	3	5	(4)
<b>Net Profit</b>	<b>(7)</b>	<b>(8)</b>	<b>(14)</b>	<b>11</b>
Minority Interest	0	-	-	-
<b>Net profit After Abnormal</b>	<b>(7)</b>	<b>(8)</b>	<b>(14)</b>	<b>11</b>

## Cash Flow (A\$m)

	2022F	2023F	2024F	2025F
Net Profit	(7)	(8)	(14)	11
(+) WC adj.	(0)	-	-	-
(+) Dep/Amort	0	-	-	13
(+) Provisions & W/O	5	-	-	-
(+) Tax Expense	-	-	-	-
(-) Deferred Revenue	-	-	-	-
(-) Tax Paid	-	-	-	-
<b>Operating Cashflow</b>	<b>(2)</b>	<b>(8)</b>	<b>(14)</b>	<b>24</b>
(-) Capex + Dev.	(0)	(180)	(50)	(10)
(-) Exploration	(5)	(2)	(2)	(2)
(-) Asset Purchased	-	-	-	-
(+) Asset Sale	-	-	-	-
(+/-) Other	-	-	-	-
<b>Investing Cashflow</b>	<b>(5)</b>	<b>(182)</b>	<b>(52)</b>	<b>(12)</b>
(+) Equity Issues (rts,plc,opts)	-	20	60	-
(+) Loan Drawdown/receivable	-	185	-	-
(+) Loans from(to) other entities	-	-	-	-
(-) Loan Repayment	(0)	-	-	(20)
(-) Dividends	-	-	-	-
<b>Financing Cashflow</b>	<b>(0)</b>	<b>205</b>	<b>60</b>	<b>(20)</b>
<b>Net Cashflows</b>	<b>(7)</b>	<b>15</b>	<b>(6)</b>	<b>(8)</b>
(+/-) FX Adj.	-	-	-	-
<b>EoP Cash Balance</b>	<b>6</b>	<b>22</b>	<b>15</b>	<b>7</b>

## Balance Sheet (A\$m)

	2022F	2023F	2024F	2025F
<b>Assets</b>				
Cash	6	22	15	7
Current Receivables	0	0	0	0
Other Current Assets	0	0	0	0
Non-Current Assets	5	185	235	232
<b>Total Assets</b>	<b>12</b>	<b>207</b>	<b>251</b>	<b>239</b>
<b>Balance Sheet</b>				
Borrowing(s)	-	185	185	165
Current Accounts payable	1	1	1	1
Other Liabilities	0	0	0	0
<b>Total Liabilities</b>	<b>1</b>	<b>186</b>	<b>186</b>	<b>166</b>
<b>Net Assets</b>	<b>11</b>	<b>21</b>	<b>65</b>	<b>73</b>

## Reserves and Resources

	Ore Reserve			Mineral Resource		
	ore Mt	Pb grade %	metal kt	ore Mt	Pb grade %	metal kt
Sorby Hills	13.6	3.6%	494	47.3	3.1%	1465
<b>Total contained Pb</b>			<b>494</b>			<b>1,465</b>

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