

BOAB DELIVERS SORBY HILLS DFS

BML.ASX | BOAB METALS LIMITED | MATERIALS

PRICE
A\$ 0.30

TARGET PRICE
A\$ 0.70
(FROM A\$ 0.70)

RECOMMENDATION
SPECULATIVE BUY
(FROM SPECULATIVE BUY)

ANALYST
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Event

Definitive Feasibility Study (DFS) released for the Sorby Hills Lead-Silver Project (75% BML), Kimberley Region, WA. Recent drilling highlights resource and reserve growth for a longer-life project. Project funding discussions being advanced, targeting financing completion and decision to mine May'23 for first lead-silver concentrates Q3CY24.

Impact

- The study provides a high-level of confidence for an up-scaled open pit operation capable of producing 67ktpa lead and 2.2Mozpa silver (100%-basis) at ~US\$0.50/lb Pb AISC over the LOM 8.5 years.
- Mine life expected to grow significantly above the base case (8.5 years) with Phase 5 and 6 drilling yet to be incorporated into the resource model; resource growth from Beta and Norton with additional extensional drilling planned. We see upside to the mine schedule via optimisation to further enhance project economics.
- As anticipated, the large inventory (reserves up 12%) has provided an opportunity to increase processing capacity to 2.25Mtpa for 34% higher production levels, while operating costs maintained in the back-drop of some inflationary pressures.
- Pre-production capex **A\$245m** (up from A\$183m PFS) reflective of the higher processing throughputs (up 50% on PFS 1.5Mtpa), has confidence in the tendered pricing, with GR Engineering selected for processing plant construction (A\$131m EPC).
- China's largest lead smelter (Henan Yuguang Gold and Lead Co) is BML's 25% JV partner, set to cover 25% of the financing requirements for its' stake in the LOM concentrate production. Strong offtake demand for BML's share of concentrates, with domestic and international traders and smelters shortlisted ahead of finalisation in Q2CY23.
- BML remains in discussions with NAIF and EFA (Federal government agencies) to provide debt financing for the project development. Advanced discussion also ongoing with a suite of commercial banks for additional debt funding, targeting FID mid-CY23.
- We update our modelling to better align to the DFS outputs, adjusted project scale, higher production levels and costs (opex and capex). Our latest valuation (NPV10) is \$0.62/sh (down from \$0.72/sh) which remains risked weighted due to the funding requirement. The project is highly sensitive to lead price/exchange rates, and we note at current spot prices our BML NAV is \$1.01/sh, highlighting upside to our current LR lead price assumptions of ~US\$0.92/lb Pb, and FX 0.74 AUDUSD.

Action

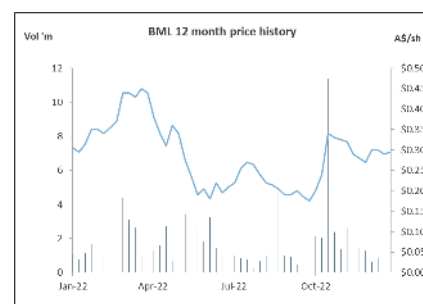
Speculative Buy retained, with key risks around project funding. Our latest valuation \$0.62/sh (P/NAV 0.5x), and Price Target \$0.70/sh (unchanged).

Catalyst

- Offtake agreements - Q2CY23
- Project financing, FID and final regulatory approvals - Q2CY23
- Construction and ongoing exploration - CY23/CY24
- First lead-silver concentrate production (target) - 2HCY24
- Lead Price

Share Price	0.30	A\$/sh	
Price Target	0.70	A\$/sh	
Valuation	0.62	A\$/sh	
Shares on issue	182	m,dil*	
Market Capitalisation	52	A\$m	
Enterprise Value	44	A\$m	
Debt	0.0	A\$m	
Cash	8.2	A\$m	
Largest Shareholder	Villiers	8.9%	
Production F'cast	2023F	2024F	2025F
Payable Lead (kt)	0	0	55
C1 Cost (US\$/lb)	0.00	0.00	0.38
ASIC (US\$/lb)	0.00	0.00	0.67
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	2	193
EBITDA (A\$m)	-5	-5	75
NPAT (A\$m)	-6	-11	35
Cashflow (A\$m)	-6	-11	52
CFPS (Ac)	-3	-6	29
P/CFPS (x)	na	na	1
EPS (Ac)	-3	-6	19
EPS growth (%)	na	na	416%
PER (x)	-10	-5	2
EV:EBITDA (x)	na	na	2.3
EV:EBIT (x)	na	na	3.0
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%
ND:Net Debt+Equity (%)	77%	55%	45%
Interest Cover (x)	na	na	4

Performance



Source: Euroz Hartleys

Market Statistics		30 June	
Share Price	\$0.300	A\$/sh	Directors
Issued Capital		G Comb	Chairman
Fully Paid Ord	173.7 m	S Noon	MD/CEO
Options/Rights	8.4 m	R Monti	NED
Total Dil. FPOrd	182.1 m	A Parker	NED
		J Monzu	Comp Sec
Market Capitalisation (dil)	\$52.1 m	C Nobbs	GM
Enterprise Value	\$43.9 m	S Dorling	ExplMan
Cash (est)	\$8.2 m	R Flanagan	ProjEng
Debt	\$0.0 m	Holders	
		Villiers QLD	8.9%

Asset Valuation	Base Case	
	A\$m	A\$/sh
(+) 75% Sorby Hills (risk 80%)	86	0.47
(-) Corporate	(21)	(0.12)
(+/-) Hedging	-	-
(+) Exploration	40	0.22
(+) Unpaid Capital	-	-
(+) Cash (est)	8.2	0.05
(-) Debt (est)	-	-
Total @ 10%	113	0.62
Spot-US\$0.96/lb Pb, 0.698 FX	183	1.01
Price Target	127	0.70

Forecast Production	2023f	2024f	2025f
Sorby Hills 100%			
Pb in Conc. (kt)	-	-	58.2
Ag in Conc. (Moz)	-	-	1.6
Payable Lead (kt)	-	-	55.2
Payable Silver (Moz)	-	-	1.3
C1 Cost (US\$/lb)	-	-	0.38
ASIC (US\$/lb)	-	-	0.67
Assumptions			
Lead Price US\$/lb	0.93	0.94	0.93
Silver Price US\$/oz	19.70	20.00	21.00
FX Rate	0.66	0.71	0.73

Ratio Analysis (A\$m)	2023f	2024f	2025f
Cashflow	-6	-11	52
Cashflow Per Share	-3	-6	29
Cashflow Ratio	na	na	1
Earnings	-6	-11	35
Earnings Per Share	-3	-6	19
EPS Growth	na	na	416%
P/e Ratio	-10	-5	2
Enterprise Value	82	172	174
EV/EBITDA	na	na	2.3
EV/EBIT	na	na	3.0
Net Debt/(Net Debt + Equity)	0.8	0.6	0.4
Interest Cover	na	na	4
EBIT Margin	na	na	30%
Return on Equity	na	na	23%
Return on Assets	na	na	12%
Dividend per Share	0	0	0
Dividend Payout Ratio	0	0	0
Dividend Yield	0	0	0
Dividend Franking	100%	100%	100%

Reserves	Mt	Grade	Metal
Sorby Hills - 100%		%Pb	kt Pb
Proved	10.4	3.5	358
Probable	4.9	3.5	172
Total	15.2	3.5	531
EV per A\$/lb Pb			\$0.04

* Subject to change

Profit and Loss (A\$m)	2023f	2024f	2025f
(+) Pb Revenue	-	-	155
(+) Ag Revenue	-	-	38
(+/-) Hedging Revenue	-	-	-
(+) Interest Income	0	2	0
(+) Other Revenue	-	-	-
Total Revenue	0	2	193
Operating Costs	-	-	(113)
Dep/Amort	-	-	(18)
WriteOff (expl'n)	-	-	-
O/H + New Bus Dev	(5)	(5)	(5)
Provisions	-	-	-
EBITDA	(5)	(5)	75
EBIT	(5)	(5)	57
Interest Expense	(3)	(12)	(11)
NPBT	(8)	(15)	46
Tax	-	-	-
Minority Interest	2	4	(12)
Net Profit	(6)	(11)	35
Minority Interest	-	-	-
Net profit After Abnormal	(6)	(11)	35

Cashflow (A\$m)	2023f	2024a	2025a
Net Profit	(6)	(11)	35
(+) WC adj.	-	-	-
(+) Dep/Amort	-	-	18
(+) Provisions & W/O	-	-	-
(+) Tax Expense	-	-	-
(-) Deferred Revenue	-	-	-
(-) Tax Paid	-	-	-
Operating Cashflow	(6)	(11)	52
(-) Capex + Dev.	(32)	(177)	(72)
(-) Exploration	(2)	(2)	(2)
(-) Asset Purchased	-	-	-
(+) Asset Sale	-	-	-
(+/-) Other	-	-	-
Investing Cashflow	(34)	(179)	(74)
(+) Equity Issues (rts,plc,opts)	6	100	20
(+) Loan Drawdown/receivable	150	-	-
(+) Loans from(to) other entities	-	-	-
(-) Loan Repayment	-	-	(20)
(-) Dividends	-	-	-
Financing Cashflow	156	100	-
Net Cashflows	116	(90)	(22)
(+/-) FX Adj.	-	-	-
EoP Cash Balance	123	33	11

Balance Sheet (A\$m)	2023f	2024a	2025a
Assets			
Cash	123	33	11
Current Receivables	0	0	0
Other Current Assets	0	0	0
Non-Current Assets	36	213	268
Total Assets	159	247	279
Liabilities			
Borrowing(s)	150	150	130
Current Accounts payable	1	1	1
Other Liabilities	0	0	0
Total Liabilities	151	151	131
Net Assets	8	95	148

Resources	Mt	Grade	Metal
Sorby Hills - 100%			
Lead	47.3	3.1%	1465 kt
Zinc	47.3	0.4%	207 kt
Silver	47.3	35g/t	53 Moz
EV per A\$/lb Pb			\$0.01

Sorby Hills Project (75% BML)

Sorby Hills 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). 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.

Figure 1: Project Location (Kimberley WA)



Source: BML

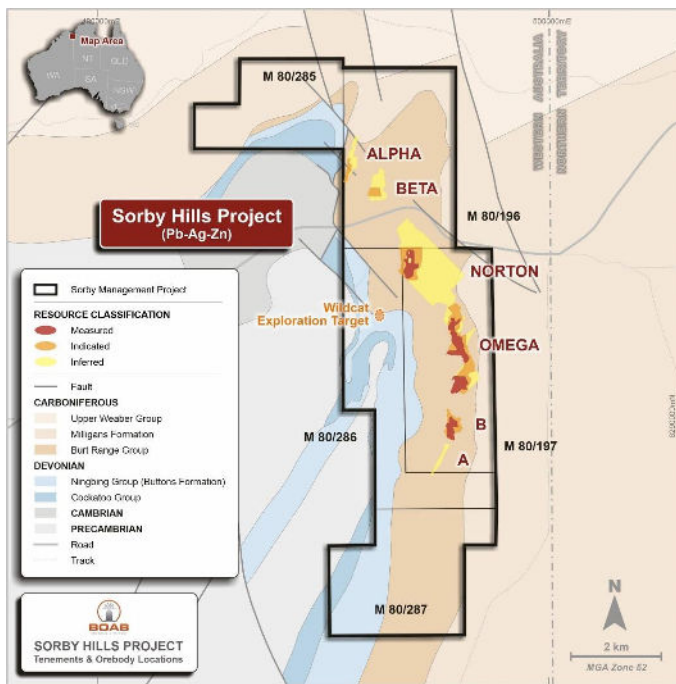
DFS Outcomes

Key highlights include:

- Open Pit Operation: **18.3Mt @ 3.4% Pb and 39g/t Ag** production target- underpinned 83% reserves
- Project Scale: **2.25Mtpa** (up from 1.5Mtpa PFS)
- Production: **67ktpa lead and 2.2Mozpa silver** (up 34% from 50ktpa lead and 1.5Mozpa PFS)
- C1 costs of **US\$0.39/lb Pb** (down from US\$0.40/lb Pb PFS) and **AISC of US\$0.48/lb Pb** (up slightly US\$0.47/lb Pb PFS)
- Life of mine (LOM): **8.5 years** (previously 10 years) - base case yet to include resource model updates for Norton and Beta, which will add mine life and sustain production levels
- Pre-production capex: **A\$245m** (up from A\$183m PFS) – 75% of capex tendered for high-confidence, increase largely scale changed related, but also reflects inflationary conditions.
- Sustaining capex over the current LOM: **A\$55m** (up from A\$32m PFS) - mine life to grow over time.

- Working with potential financiers including NAIF and EFA for FID and decision to mine mid-CY23.
- Solid margins at current spot lead prices for pay-back of <3 years. BML's NPV8 (pre-tax) A\$370m for IRR (pre-tax) 35% EBITDA (ave) A\$119mpa (100% basis) – using ~US\$1.025/lb lead (forward curves); highly sensitive to lead price and exchange rates.

Figure 2: Sorby Hills Tenure and Deposits



Source: BML

Figure 3: Current Resources

Resource Classification by Deposit	Tonnes (Mt)	Grade			Contained Metal		
		Pb %	Zn %	Ag g/t	Pb kt	Zn kt	Ag koz
A							
Inferred	0.6	5.3%	1.0%	23	31	6	427
Sub Total	0.6	5.3%	0.1%	23	31	6	427
B							
Measured	1.4	3.8%	0.3%	19	52	4	859
Indicated	1.3	3.4%	0.3%	21	44	4	862
Sub Total	2.7	3.6%	0.3%	20	97	8	1,720
Omega							
Measured	8.5	3.3%	0.4%	37	279	32	9,995
Indicated	5.8	3.5%	0.4%	34	205	25	6,331
Inferred	2.9	2.7%	0.4%	26	76	13	2,414
Sub Total	17.2	3.3%	0.4%	34	566	71	18,948
Norton							
Measured	2.8	4.1%	0.3%	75	112	9	6,668
Indicated	2.1	3.2%	0.5%	38	68	11	2,617
Inferred	16.2	2.5%	0.5%	27	402	75	14,039
Sub Total	21.1	2.8%	0.4%	34	590	96	24,090
Alpha							
Indicated	0.7	2.6%	0.5%	41	18	4	923
Inferred	0.8	3.6%	1.2%	86	27	9	2,052
Sub Total	1.5	3.1%	0.9%	64	45	13	2,975
Beta							
Indicated	1.0	4.1%	0.2%	42	42	2	1,382
Inferred	3.2	3.4%	0.4%	43	109	14	4,474
Sub Total	4.2	3.6%	0.4%	43	151	17	5,856
Total Resource							
Measured	12.6	3.5%	0.4%	43	444	45	17,521
Indicated	11.0	3.4%	0.4%	34	377	46	12,114
Inferred	23.6	2.7%	0.5%	31	645	117	23,406
Total	47.3	3.1%	0.4%	35	1,465	207	53,042

Note: Tonnes and Grade are rounded. Reported at a 1.0% Pb cut-off. Discrepancies in calculated Contained Metal is due to rounding.

Source: BML

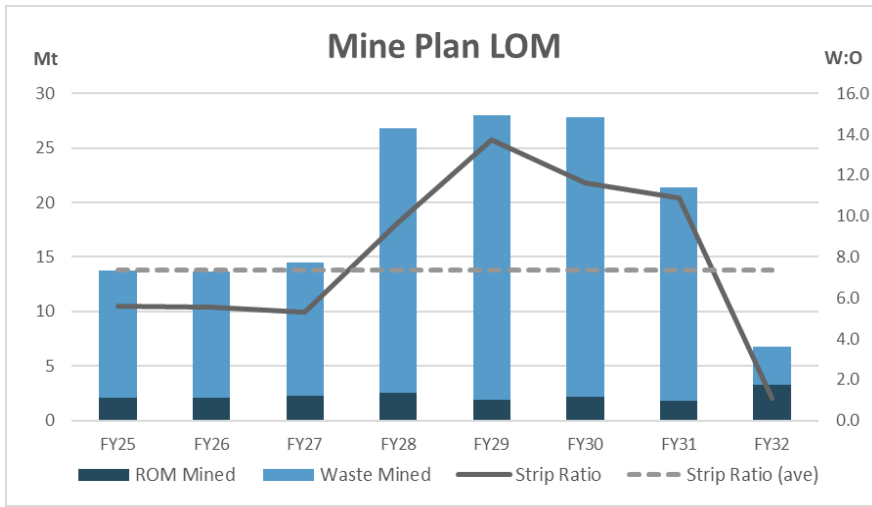
Figure 4: Current Reserves

Ore Reserve Category	Ore (Mt)	Grade		Contained Metal	
		Pb (%)	Ag (g/t)	Pb (kt)	Ag (Moz)
B Pit	1.32	3.4%	18	45	0.7
Norton	1.87	4.0%	80	74	4.8
Omega Main	4.98	3.6%	42	179	6.7
Omega South	2.18	2.8%	27	61	1.9
Beta	-	-	-	-	-
Proved	10.40	3.5%	42	358	14.1
B Pit	0.94	3.0%	17	28	0.5
Norton	0.04	4.0%	40	2	0.1
Omega Main	2.30	3.8%	34	86	2.5
Omega South	0.62	3.2%	37	19	0.7
Beta	0.99	3.7%	38	37	1.2
Probable	4.90	3.5%	32	172	5.0
Total Ore Reserve	15.20	3.5%	39	531	19.1

Note: Tonnes and Grade are rounded. Reported at a 1.0% Pb cut-off. The above data has been rounded to the nearest 10,000 tonnes ore, 0.1% lead grade and 1,000 lead tonnes, 1g/t silver grade and 100,000 silver ounces. Discrepancies in calculated Contained Metal is due to rounding. Ore Reserves have been calculated using metal prices of A\$3,313.91/t Pb and A\$37.89/oz Ag and royalties of 4.3% of gross revenue including allowable deductions.

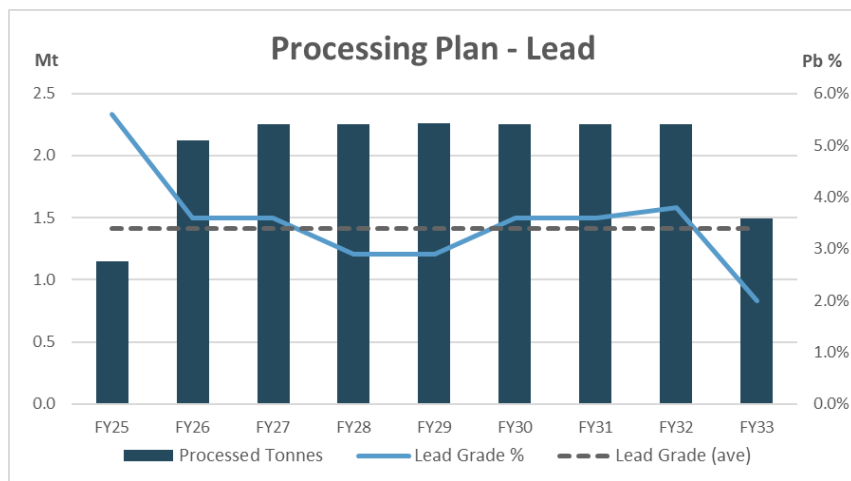
Source: BML

Figure 5: Sorby Hills DFS Mine Plan



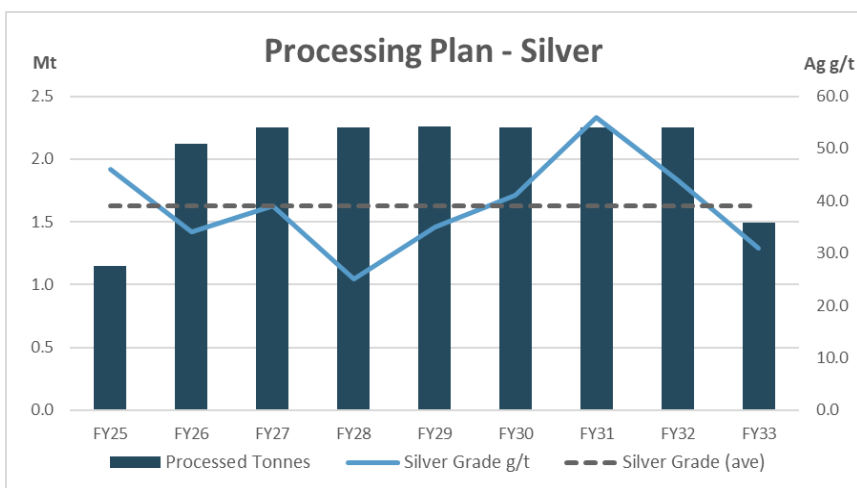
Source: Euroz Hartleys reference DFS

Figure 6: Sorby Hills DFS Processing Plan - Lead



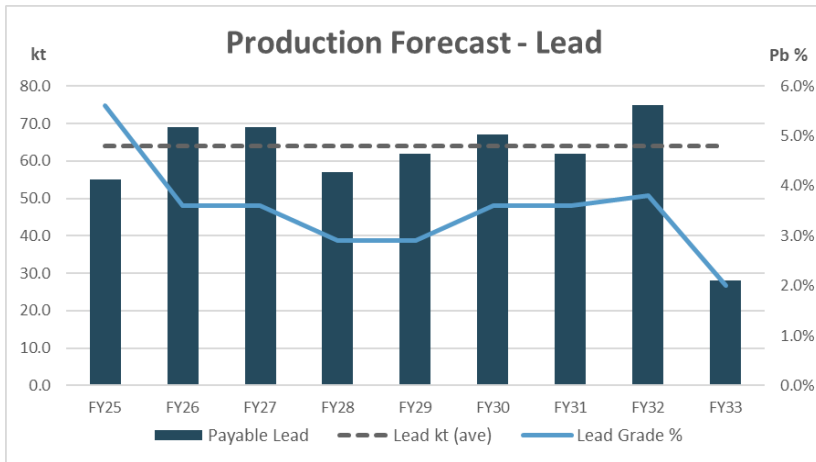
Source: Euroz Hartleys reference DFS

Figure 7: Sorby Hills DFS Processing Plan - Silver



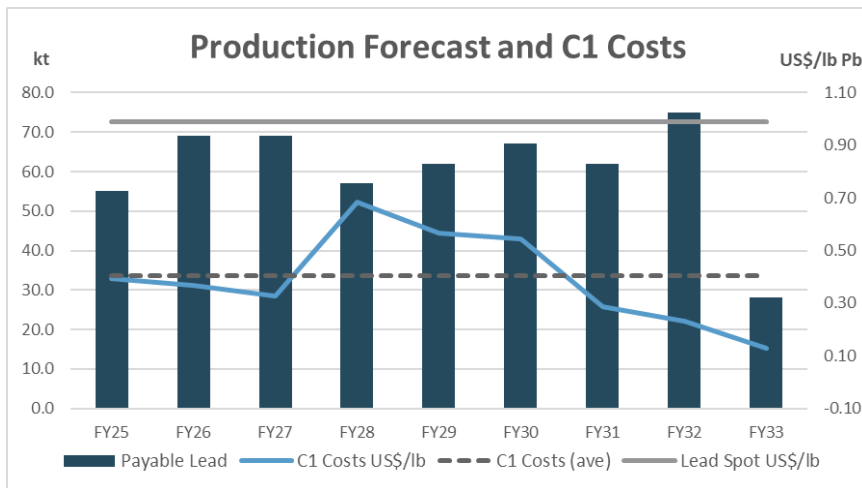
Source: Euroz Hartleys reference DFS

Figure 8: Sorby Hills DFS Production Forecast



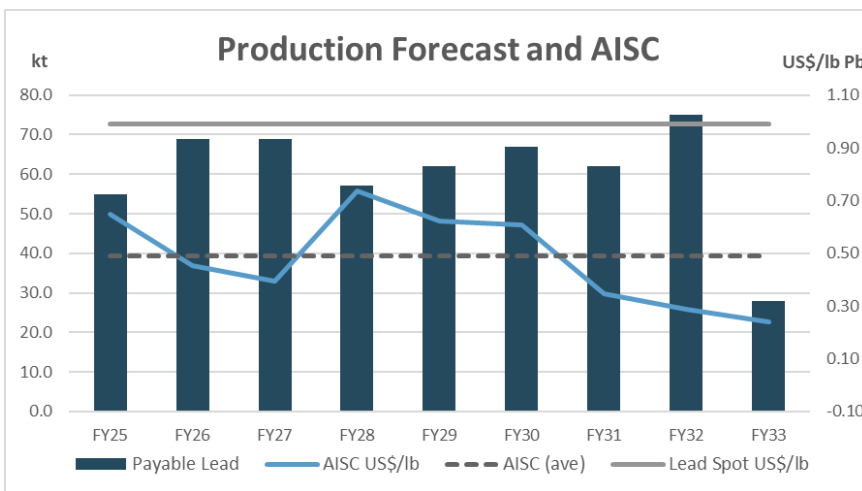
Source: Euroz Hartleys reference DFS

Figure 9: Sorby Hills DFS Production and C1 Costs



Source: Euroz Hartleys reference DFS

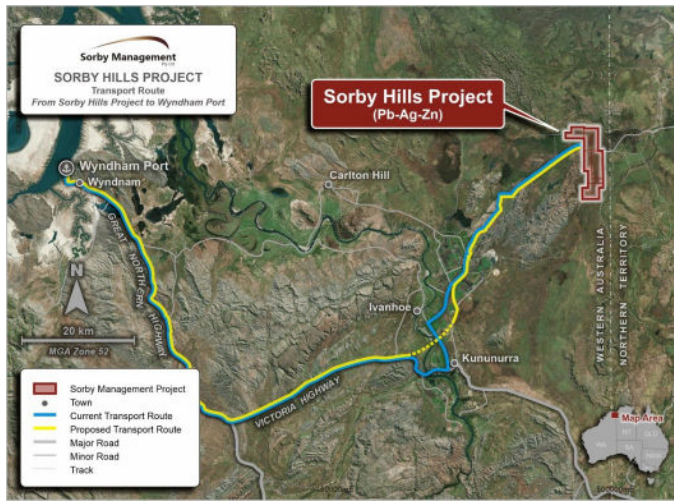
Figure 10: Sorby Hills DFS Production and AISC



Source: Euroz Hartleys reference DFS

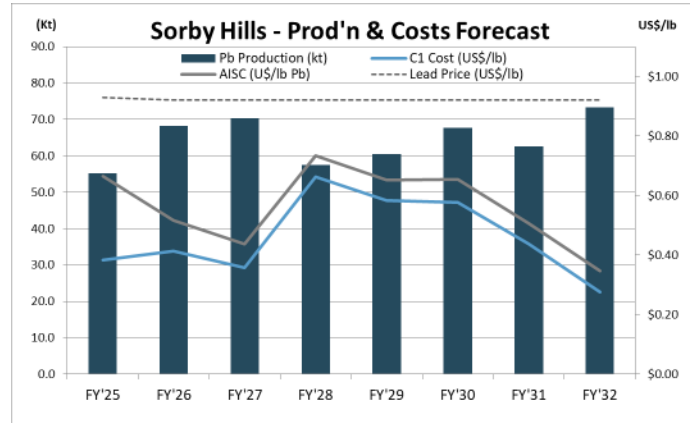
Key Variables

Figure 11: Project Location



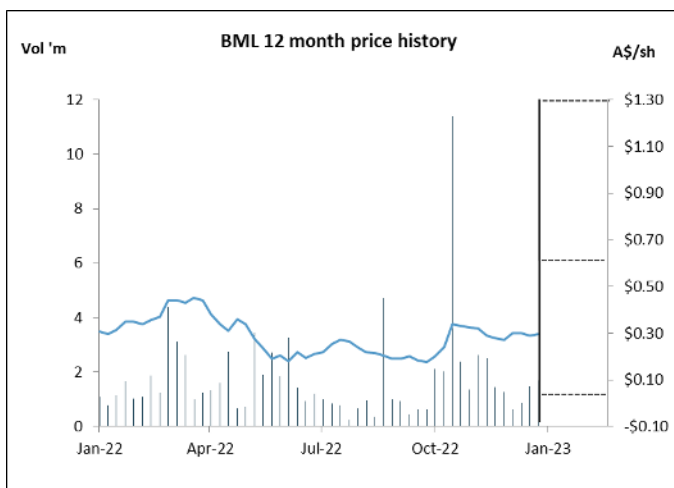
Source: BML

Figure 12: Production Forecasts



Source: Euroz Hartleys

Figure 13: Price History with Bull, Base and Bear Scenarios



Source: Euroz Hartleys, IRESS

Figure 14: Bull, Base and Bear Scenarios

Our Market Sensitivity
Price Target \$0.70/sh
Valuation \$0.62/sh

Bull Scenario \$1.30/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 maintained while mine life added.

Base Scenario \$0.62/sh
 Sorby Hills DFS outputs using our EH commodity price and exchange rate forecasts (remain subject to change). The project can be successfully funded into production for construction to commence in 2HCY23. We now assume first production in late FY25.

Bear Scenario \$0.08/sh
 Sorby Hills project stalls due to falling lead and silver prices. Financing becomes problematic.

Source: Euroz Hartleys

Figure 15: Lead Sensitivities

AUDUSD	Val/sh	Lead \$								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
15%	\$0.62	-\$0.38	-\$0.25	-\$0.13	\$0.00	\$0.12	\$0.24	\$0.37	\$0.49	\$0.62
10%	\$0.62	-\$0.25	-\$0.12	\$0.01	\$0.14	\$0.27	\$0.40	\$0.53	\$0.66	\$0.79
5%	\$0.62	-\$0.11	\$0.03	\$0.16	\$0.30	\$0.44	\$0.57	\$0.71	\$0.84	\$0.98
0%	\$0.62	\$0.05	\$0.19	\$0.33	\$0.48	\$0.62	\$0.76	\$0.90	\$1.05	\$1.19
-5%	\$0.62	\$0.22	\$0.37	\$0.52	\$0.67	\$0.82	\$0.97	\$1.12	\$1.27	\$1.42
-10%	\$0.62	\$0.41	\$0.57	\$0.73	\$0.88	\$1.04	\$1.20	\$1.36	\$1.52	\$1.68
-15%	\$0.62	\$0.62	\$0.79	\$0.96	\$1.12	\$1.29	\$1.46	\$1.63	\$1.80	\$1.96

Source: Euroz Hartleys

Figure 16: Commodity Price Forecasts

Euroz Forecast	FY'2023	FY'2024	FY'2025	LR
Silver (US\$/oz)	\$20	\$20	\$21	\$22
Lead (US\$/lb)	\$0.93	\$0.94	\$0.93	\$0.92
AUDUSD	\$0.66	\$0.71	\$0.73	\$0.74

Source: Euroz Hartleys (subject to change)

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The companies and securities mentioned in this report, include:

Boab Metals Limited (BML.ASX) | Price A\$0.30 | Target price A\$0.70 | Recommendation Speculative Buy;

Price, target price and rating as at 23 January 2023 (not covered)*

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