

Boab Metals Ltd (BML)

Rating: Buy | Risk: High | Price Target: \$0.80

Sorby Hills DFS – exceptional economics confirmed, 78% increase in Measured Resource

Key Information

Current Price (\$ps)	0.31
12m Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.17 - 0.47
Target Price Upside (%)	157.7%
TSR (%)	157.7%
Reporting Currency	AUD
Market Cap (\$m)	48
Sector	Materials
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0%

Fundamentals

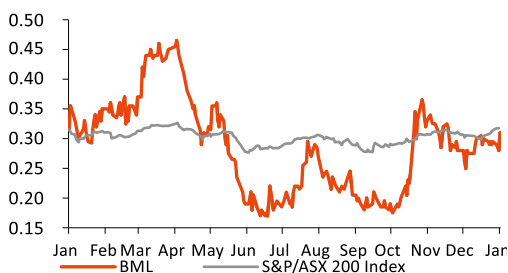
YE 30 Jun (AUD)	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	0	0	116	288
NPAT (\$m)	(7)	(6)	28	73
EPS (cps)	(4.5)	(2.4)	8.4	21.9
EPS Growth (%)	nm	46.7%	454.5%	160.6%
DPS (cps) (AUD)	0.0	0.0	0.0	6.6
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY22A	FY23E	FY24E	FY25E
P/E (x)	(3.8)	(13.1)	3.7	1.4
EV/EBITDA (x)	(6.1)	(8.3)	0.7	0.3
Div Yield (%)	0.0%	0.0%	0.0%	21.2%
Payout Ratio (%)	0.0%	0.0%	0.0%	30.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	7.1%	(9.5%)	63.5%	(2.4%)
Absolute (%)	10.7%	(6.1%)	72.2%	(1.6%)
Benchmark (%)	3.6%	3.4%	8.7%	0.8%



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%

Event

Boab Metals has released a Definitive Feasibility Study (DFS) on the Sorby Hills Lead-Silver-Zinc Project in WA. As expected, the size of the project has increased ~50% from the PFS following a series of successful drilling campaigns. The DFS has confirmed the exceptional economics on this project – NPV₈ of A\$370m, IRR of 35% and average annual EBITDA of A\$119m. In our view, Sorby Hills is one of the best base metals projects amongst the emerging resource companies on the ASX.

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%.
- The DFS has outlined a larger project. The processing plant has increased 50% from 1.5Mtpa to 2.25Mtpa. The pre-production capex has increased from A\$183m to A\$245m which in the current inflationary environment is a remarkably small increase given the increase in the scope of the project.
- We had already made changes to our financial model in anticipation of the changes that have been announced in the DFS including; increased the size of the project from 1.5 to 2.0 mtpa, increasing capex from \$186m to \$240m; and increasing operating costs by ~15%. We have not yet incorporated the DFS data into our financial model but we do not anticipate the changes to be material.
- Boab has very high-confidence in the capital cost estimates with 75% of the costs underpinned by up-to-date tendered pricing for the Process Plant, Open Pit Mining, Early Works, Tailings, Water Storage and infrastructure.
- The release of the DFS incorporates a 78% increase in Measured Resources, and a 12% increase in Ore Reserves to 15.2Mt including a 53% increase in Proved Ore Reserves.
- The project can improve even further. Recent positive drilling results at the Beta and Norton deposits have not been incorporated into the Resource.
- The company has binding offtake agreements ready to sign and these will be finalised after the release of the DFS. The demand for Sorby Hills lead concentrate may surprise the market and we expect Sorby Hills to be fully sold. Offtake is not a significant risk.
- Boab is now advancing its financing plans, including funding from the Northern Australia Infrastructure Facility (NAIF). NAIF debt provides significant financing for the project. NAIF debt is relatively low cost, long tenure and does not need to be repaid until later in the project life. This allows the asset to be geared more highly than usual. Boab Metals is indicating that gearing of ~60% is achievable. That suggest that, allowing the working capital, an equity contribution of around A\$100m will be required – split 75/25 between Boab and its JV partner Yuguang.

Recommendation

We retain our Buy recommendation and price target of A\$0.80ps. In our view the stock is materially undervalued and should rerate as the DFS, offtakes and financing milestones are achieved.

As noted above, we have not yet incorporated the release of the DFS into our financial model and we will provide updated financial forecasts once we have done so.

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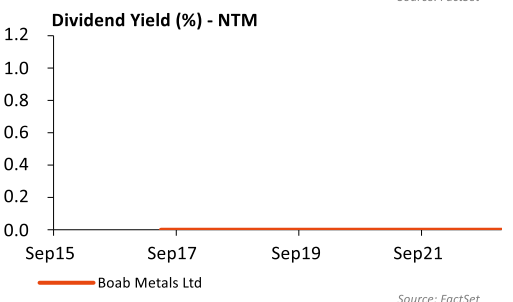
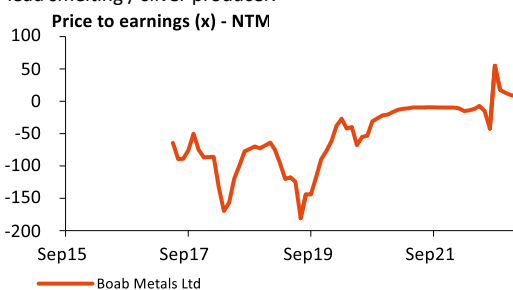
Boab Metals Ltd
Materials
Materials

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.31
Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.17 - 0.47
Shares on Issue (m)	153
Market Cap (\$m)	48
Enterprise Value (\$m)	41
TSR (%)	157.7%
Valuation per share (cps) (AUD)	0.80
Valuation (\$m)	263.80

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)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS (Reported) (cps)	(0.3)	(4.5)	(2.4)	8.4	21.9
EPS (Underlying) (cps)	(0.3)	(4.5)	(2.4)	8.4	21.9
EPS (Underlying) Growth (%)	nm	nm	46.7%	454.5%	160.6%
PE (Underlying) (x)	nm	(3.8)	(13.1)	3.7	1.4
EV / EBIT (x)	(8.2)	(6.1)	(8.3)	0.7	0.3
EV / EBITDA (x)	(8.3)	(6.1)	(8.3)	0.7	0.3
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	6.6
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	21.2%
Franking (%)	0%	100%	100%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	30.0%
Free Cash Flow Yield (%)	(0.7%)	(25.1%)	(166.0%)	(72.5%)	109.8%
Profit and Loss (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	0	0	0	116	288
Sales Growth (%)	n/a	n/a	n/a	n/a	147.7%
Other Operating Income	0	0	0	0	0
EBITDA	(5)	(7)	(5)	60	152
EBITDA Margin (%)	nm	nm	nm	51.5%	52.9%
Depreciation & Amortisation	(0)	(0)	0	(5)	(12)
EBIT	(5.1)	(6.8)	(5.0)	55.2	140.7
EBIT Margin (%)	nm	nm	nm	47.5%	48.8%
Net Interest	0	0	(1)	(2)	(2)
Pretax Profit	(5)	(7)	(6)	53	138
Minorities	0	0	0	9	24
NPAT Underlying	(5)	(7)	(6)	28	73
Significant Items	0	0	0	0	0
NPAT Reported	(5)	(7)	(6)	28	73
Cashflow (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBIT	(5)	(7)	(5)	55	141
Tax Paid	0	0	0	0	(16)
Net Interest	0	0	(1)	(2)	(2)
Change in Working Capital	0	0	0	(15)	(22)
Depreciation & Amortisation	(0)	(0)	0	(5)	(12)
Other	0	0	1	3	4
Operating Cashflow	(5)	(6)	(5)	46	116
Capex	0	0	(120)	(120)	(3)
Acquisitions and Investments	(0)	0	(3)	(3)	(3)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	30	30	1
Investing Cashflow	(0)	0	(93)	(93)	(5)
Free Cashflow	(5)	(7)	(125)	(74)	113
Equity Raised / Bought Back	14	0	70	0	0
Dividends Paid	0	0	0	0	(7)
Change in Debt	0	0	50	60	(30)
Other	(0)	(0)	(1)	(3)	(4)
Financing Cashflow	14	(0)	119	57	(40)
Net Change in Cash	10	(7)	22	10	71
Balance Sheet (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	13	6	28	38	109
Accounts Receivable	0	0	0	10	24
Inventory	0	0	0	10	24
Other Current Assets	0	0	0	0	0
PPE	5	5	127	245	239
Total Assets	19	12	156	303	396
Accounts Payable	1	1	1	4	11
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	50	110	80
Total Liabilities	2	1	51	131	133
Ratios	FY21A	FY22A	FY23E	FY24E	FY25E
ROE (%)	(41.0%)	(49.4%)	(13.5%)	31.4%	53.5%
Gearing (%)	(311.2%)	(144.2%)	22.7%	41.2%	(20.7%)
Net Debt / EBITDA (x)	2.6	0.9	(4.4)	1.2	(0.2)

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 released a Definitive Feasibility Study (DFS) in January 2023 and we expect a Final Investment Decision in 1H23. 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

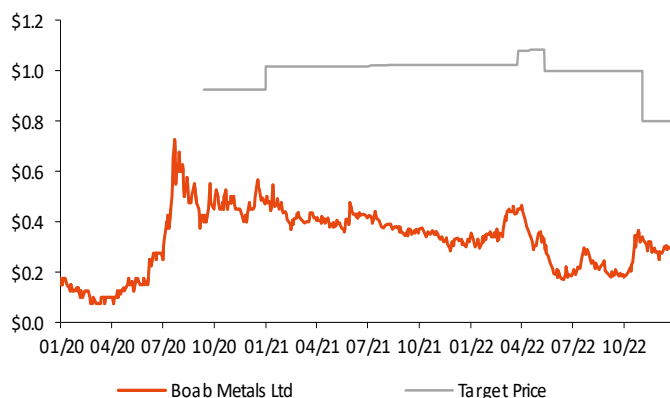
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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	115	88%
Hold	15	12%
Sell	0	0%

History of Investment Rating and Target Price - Boab Metals Ltd

Date	Closing Price (\$)	Target Price (\$)	Rating
20-Nov-22	0.33	0.80	Buy
31-May-22	0.30	1.00	Buy
2-May-22	0.37	1.08	Buy
14-Apr-22	0.45	1.08	Buy
25-Aug-21	0.40	1.02	Buy
21-Jul-21	0.41	1.02	Buy
19-Jan-21	0.47	1.02	Buy
1-Oct-20	0.40	0.92	Buy



Buy

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