

Boab Metals Ltd (BML)

Rating: Buy | Risk: High | Price Target: \$0.52

8 November 2023

New lead/zinc discovery confirmed at Keep

Key Information

Current Price (\$ps)	0.13
12m Target Price (\$ps)	0.52
52 Week Range (\$ps)	0.07 - 0.37
Target Price Upside (%)	316.5%
TSR (%)	316.5%
Reporting Currency	AUD
Market Cap (\$m)	22
Sector	Materials
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0%

Fundamentals

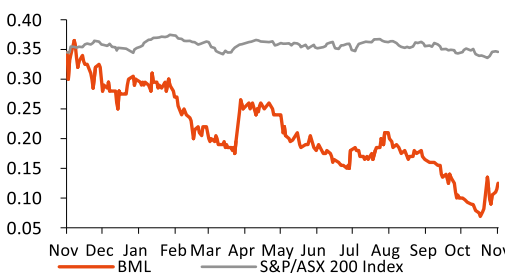
YE 30 Jun (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	0	0	258	294
NPAT (\$m)	(6)	(3)	45	53
EPS (cps)	(3.6)	(0.9)	8.2	9.6
EPS Growth (%)	18.9%	74.4%	nm	16.9%
DPS (cps) (AUD)	0.0	0.0	0.0	4.8
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY23A	FY24E	FY25E	FY26E
P/E (x)	(4.3)	(13.5)	1.5	1.3
EV/EBITDA (x)	(2.7)	(3.1)	0.2	0.1
Div Yield (%)	0.0%	0.0%	0.0%	38.5%
Payout Ratio (%)	0.0%	0.0%	0.0%	50.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	24.7%	(21.7%)	(32.9%)	(64.1%)
Absolute (%)	25.0%	(24.2%)	(37.5%)	(63.8%)
Benchmark (%)	0.3%	(2.5%)	(4.6%)	0.3%



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 assay results from its recent drilling program at the Sorby Hills Project in WA. The results have confirmed mineralisation at the Keep Seismic Target, which is an excellent result from the first hole into this conceptual target just 2km from the Sorby Hills Resource. An intercept of 9.6m @ 5.1% PbEq is a great start, and it is unlikely that the first hole has hit the best intersection. The assay results have also confirmed high-grade mineralisation at the Norton Resource including 11m @ 17.6% PbEq and suggests there will be upside to this Resource.

Highlights

- Boab Metals is developing the Sorby Hills Lead-Silver-Zinc Project in the Kimberley Region of Western Australia. In January 2023, Boab released the results of a DFS outlining a A\$245m project processing 2.25Mtpa of ore and producing 103ktpa of a lead/silver concentrate over a 10 year mine-life. The annual production of contained metals is expected to be ~67ktpa of lead and 2.2Mozpa of silver. The DFS resulted in an estimated pre-tax NPV of A\$370M (at an 8% discount rate), an IRR of 35%, and an average annualised EBITDA of A\$119m.
- Boab recently completed its Phase VII drilling program which consisted of 2,634m of drilling over 22 drill holes. The primary objective of the drill program was to extend the Sorby Hills Reserve via additional metallurgical testwork, extensional and in-fill drilling. The main target was metallurgical drilling at the Norton Deposit where 13 holes were drilled to better define the Norton Resource and provide additional core for metallurgical test work.
- The exciting news is that the high-risk drill hole into the conceptual Keep Seismic Target encountered 15m of visual mineralisation from 242m. The assay results have today confirmed that this is lead and zinc mineralisation with the SHSD_185 drillhole returning an intercept of 9.55 m @ 5.10% PbEq (2.59% Pb & 2.26% Zn) from 242.55m and including 3.12 m @ 13.43% PbEq (6.37% Pb & 6.36% Zn) and 26.5 g/t Ag.
- In our view, the success at Keep opens up a range of new exploration targets for Boab Metals in the Burt Range Basin, which also hosts the company's Manbarrum zinc deposit to the East in the Northern Territory.
- The assay results from Norton extensional drilling are also very positive with high-grade intercepts including:
 - SHSD_171: 11.05m @ 17.63% PbEq (10.98%Pb & 189 g/t Ag) from 81.95m, and
 - SHSD_174: 11.60m @ 20.23% PbEq (8.78%Pb & 325g/t Ag) from 74.40m.
- The strong demand outlook for lead and silver is not matched by the supply outlook and we expect the Sorby Hills lead/silver concentrate to be highly sought after by global smelters. Boab Metal's Chinese partner Henan Yuguang will take its 25% share, and Boab Metals is finalising the binding offtake agreements for the remaining 75% and some of the offers come with financing options. We do not believe offtake is a significant risk but an announcement that Sorby Hills is fully sold is likely to be a positive catalyst.
- Boab is advancing its financing plans, including funding from the Northern Australia Infrastructure Facility (NAIF). NAIF debt provides significant financing flexibility for the project and allows the asset to be geared more highly than usual. Boab finished the September quarter with A\$3m cash which leaves Boab fully funded to FID.

Recommendation

We maintain our BUY recommendation and price target of A\$0.52ps. Our price target is based on our fully diluted DCF valuation. Boab has a number of positive upcoming catalysts we expect to see released over the coming months, including the offtake agreements, a NAIF funding package, a commercial debt tranche to sit alongside NAIF, and FID.

Boab Metals Ltd

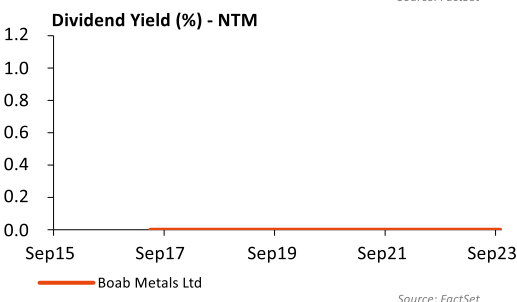
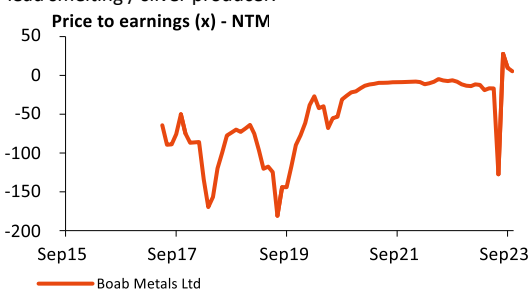
**Materials
Materials**

FactSet: BML-AU / Bloomberg: BML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.13
Target Price (\$ps)	0.52
52 Week Range (\$ps)	0.07 - 0.37
Shares on Issue (m)	174
Market Cap (\$m)	22
Enterprise Value (\$m)	16
TSR (%)	316.5%
Valuation per share (cps) (AUD)	0.52
Valuation (\$m)	286.05

Company Description

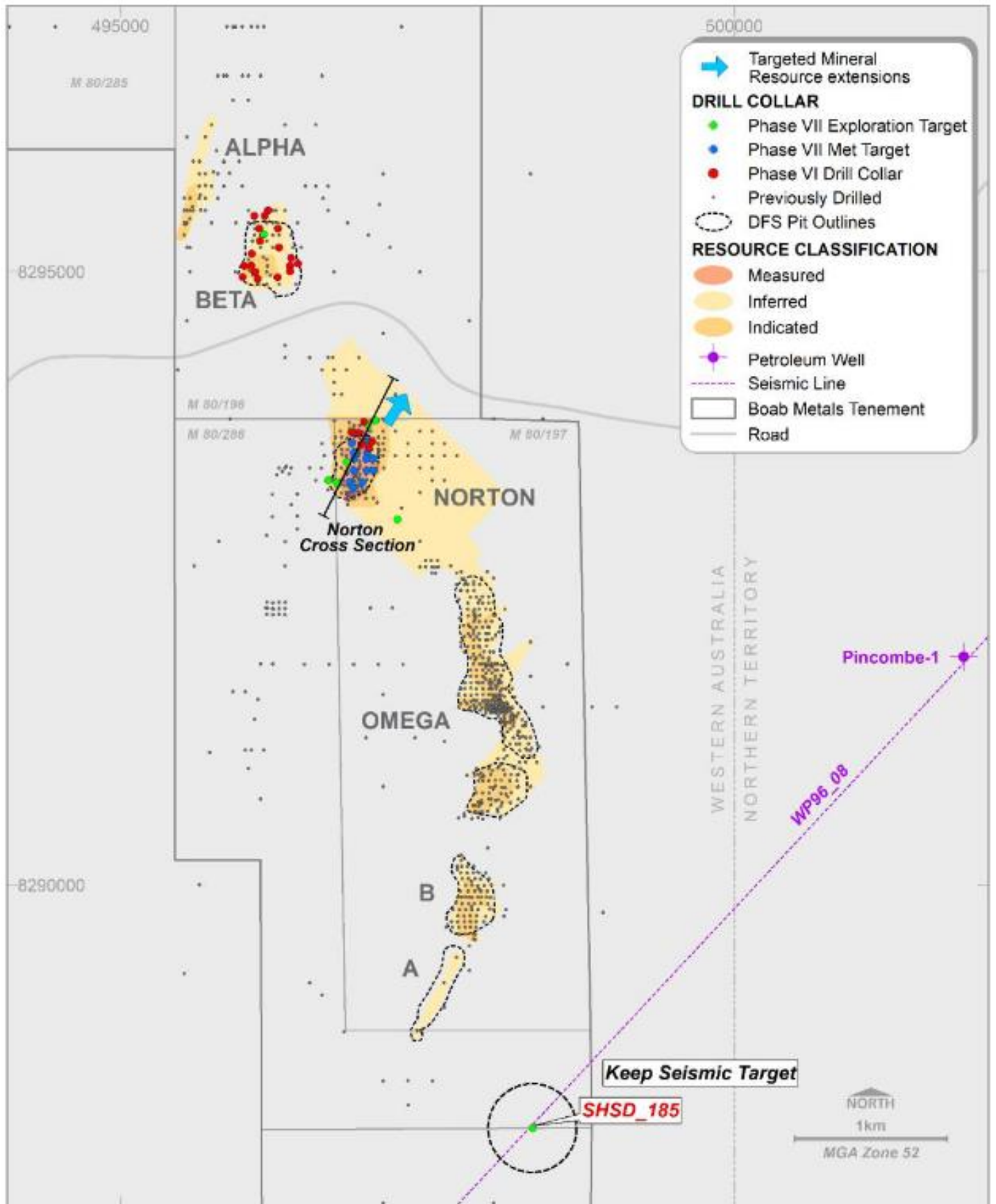
Boab Metals is a base metal exploration and development company, primarily focused on its flagship Sorby Hills Project in Kununurra, Western Australia. The flagship Project is the largest undeveloped, near surface lead-silver-zinc deposit in Australia. Sorby Hills is 75%-owned by Boab Metals and 25% owned by Henan-Yuguang - China's largest lead smelting / silver producer.



Financial Year End: 30 June

Investment Summary (AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (Reported) (cps)	(4.5)	(3.6)	(0.9)	8.2	9.6
EPS (Underlying) (cps)	(4.5)	(3.6)	(0.9)	8.2	9.6
EPS (Underlying) Growth (%)	nm	18.9%	74.4%	nm	16.9%
PE (Underlying) (x)	(3.8)	(4.3)	(13.5)	1.5	1.3
EV / EBIT (x)	(2.3)	(2.6)	(3.1)	0.2	0.2
EV / EBITDA (x)	(2.3)	(2.7)	(3.1)	0.2	0.1
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	4.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	38.5%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	50.0%
Free Cash Flow Yield (%)	(25.1%)	(27.6%)	(401.7%)	(0.8%)	127.0%
Profit and Loss (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	0	0	0	258	294
Sales Growth (%)	n/a	n/a	n/a	n/a	13.7%
Other Operating Income	0	0	0	0	0
EBITDA	(7)	(6)	(5)	98	119
EBITDA Margin (%)	nm	nm	nm	38.0%	40.5%
Depreciation & Amortisation	(0)	(0)	0	(9)	(16)
EBIT	(6.8)	(5.9)	(5.0)	89.2	102.5
EBIT Margin (%)	nm	nm	nm	34.5%	34.9%
Net Interest	0	0	(1)	(3)	(2)
Pretax Profit	(7)	(6)	(6)	86	101
Minorities	0	0	(1)	15	18
NPAT Underlying	(7)	(6)	(3)	45	53
Significant Items	0	0	0	0	0
NPAT Reported	(7)	(6)	(3)	45	53
Cashflow (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	(7)	(6)	(5)	89	103
Tax Paid	0	0	0	2	(26)
Net Interest	0	0	(1)	(3)	(2)
Change in Working Capital	0	0	0	(30)	(5)
Depreciation & Amortisation	(0)	(0)	0	(9)	(16)
Other	0	0	2	4	4
Operating Cashflow	(6)	(5)	(5)	71	90
Capex	0	(2)	(177)	(71)	(3)
Acquisitions and Investments	0	0	(3)	(3)	(3)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	44	18	1
Investing Cashflow	0	(2)	(135)	(56)	(5)
Free Cashflow	(7)	(7)	(182)	(1)	87
Equity Raised / Bought Back	0	5	75	0	0
Dividends Paid	0	0	0	0	(11)
Change in Debt	0	0	80	30	(30)
Other	(0)	(0)	(2)	(4)	(4)
Financing Cashflow	(0)	5	154	26	(45)
Net Change in Cash	(7)	(2)	13	41	41
Balance Sheet (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	6	5	18	59	100
Accounts Receivable	0	1	1	21	24
Inventory	0	0	0	21	24
Other Current Assets	0	0	0	0	0
PPE	5	6	186	250	240
Total Assets	12	12	204	352	388
Accounts Payable	1	1	1	13	14
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	80	110	80
Total Liabilities	1	1	79	149	125
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(49.4%)	(56.4%)	(7.2%)	43.2%	35.7%
Gearing (%)	(144.2%)	(77.8%)	43.0%	28.5%	(13.5%)
Net Debt / EBITDA (x)	0.9	0.8	(12.4)	0.5	(0.2)

Figure 1: Plan view of the Sorby Hills Project showing the locations of recent drill holes – including the Keep Seismic Target



Source: Boab ASX release Nov-23

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 \$185m 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 January 2023, Boab released the results of a Sorby Hills Definitive Feasibility Study (DFS). The DFS outlined a A\$245m project processing 2.25Mtpa of ore and producing 103ktpa of a lead/silver concentrate over a 10 year mine life. The annual production of contained metals is expected to be ~67ktpa of lead and 2.2Mozpa of silver.
- The DFS resulted in an estimated pre-tax NPV of A\$370M (at an 8% discount rate), an IRR of 35%, and an average annualised EBITDA of A\$119m.
- Boab is now progressing the offtake agreements and debt financing and we expect a Final Investment Decision in 2024. There will be a 12-18-month construction period and first production in 2025.
- 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\$185m 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\$75m/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

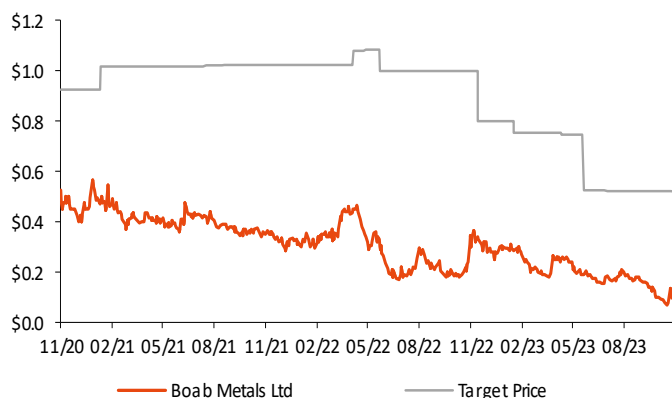
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Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	76	96%
Hold	2	3%
Sell	1	1%

History of Investment Rating and Target Price - Boab Metals Ltd

Date	Closing Price (\$)	Target Price (\$)	Rating
31-Oct-23	0.12	0.52	Buy
6-Jul-23	0.18	0.52	Buy
29-May-23	0.19	0.52	Buy
19-Apr-23	0.25	0.75	Buy
24-Jan-23	0.29	0.75	Buy
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



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