

Boab to become Sorby Hills sole owner

Metals & Mining

Boab Metals Limited (ASX: BML) has announced that it has executed an option agreement with its JV partner Henan Yuguang to acquire its 25% share in the Sorby Hills Lead-Silver-Zinc Project for A\$23m. The purchase amount is to be paid in 3 tranches and the ability to exercise the option is subject to Boab reaching a Final Investment Decision (FID) on the Sorby Hills Project within the next 12 months. Importantly, the option agreement requires no immediate payment to Yuguang and allows for Tranche 1 payment to be met with funds raised at FID. Boab's full ownership of the project, along with the elimination of direct Chinese ownership, is likely to enhance access to Australian government funding sources, such as the Northern Australia Infrastructure Facility (NAIF), for the project's development. This streamlined ownership structure is also expected to ease offtake negotiations and attract potential financing from offtakers.

| | |
|---------------------|---------------|
| Current Price (A\$) | 0.12 |
| Target Price (A\$) | 0.44-0.49 |
| Price / NAV (x) | 0.26x |
| Market Cap (A\$m) | 28 |
| 52-week H/L (A\$) | 0.235 / 0.059 |
| Free Float (%) | 77.6% |
| Bloomberg | BML AU |
| Reuters | BML.AX |

Positive FEED results have enhanced Sorby Hills' economics

Over the past year, Boab has successfully optimised its Sorby Hills DFS results while completing Front-End Engineering and design (FEED) for the Process Plant in collaboration with GR Engineering Services (GRES). This has resulted in significant project improvements, including a c. 10% decline in C1 costs while reporting a modest increase in upfront Capex, resulting in considerable improvements in project NPV and IRR profiles.

Lead and silver prices hold strong

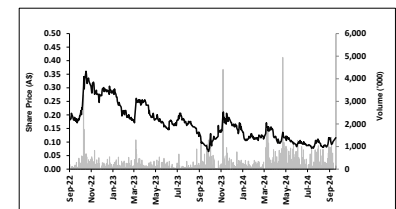
Unlike many so-called green metals like lithium, nickel, and rare earth elements (REEs), lead and silver prices have remained resilient despite the broader downturn in commodity prices over the past 18 months. Silver, in particular, is trading at a 10-year high, driven by increased demand for precious metals and growing industrial use, especially in solar panel manufacturing. Meanwhile, we anticipate a further recovery in lead prices in the near term, supported by the recent rise in zinc prices. Given the historical correlation between these two commodities, we expect lead prices to follow suit shortly.

Valuation range of A\$0.44–0.49 per share

In our December 2023 coverage of BML ([available here](#)), we valued the company at A\$0.70 per share in a base-case scenario and A\$0.81 per share in a bull-case scenario, using a DCF model primarily based on the Sorby Hills DFS outcomes. We've now updated our model to reflect the results of the completed FEED study and assume 100% ownership of Sorby Hills by Boab. The decline in our revised valuation range is mainly due to higher dilution from BML needing to raise more equity capital as the sole owner of the project and our lower estimate of the share price at which BML is likely to raise that capital, as well as the A\$23m cash outflow to Yuguang as part of the option agreement. We have also assumed the production at Sorby Hills to commence a year later in FY27 in our updated model.

| Year-end (A\$m) | FY 25e | FY 26e | FY 27e | FY 28e | FY 29e |
|-----------------|--------|---------|--------|--------|--------|
| Revenue | 0.0 | 0.0 | 295.7 | 313.4 | 415.7 |
| NOPAT | 0.0 | 0.0 | 84.3 | 76.9 | 108.6 |
| FCF | 0.3 | (223.7) | 27.9 | 97.1 | 126.9 |

Price Performance (in A\$)



Business description

Boab Metals Ltd (BML) is a Perth-based explorer and mine developer. Formerly known as Pacifico Minerals Limited, BML has been listed on ASX since 2004. It is mainly engaged in developing the Sorby Hills project site (75% ownership). Sorby Hills area has one of Australia's largest undeveloped and near surface lead-silver deposits. BML also owns the Manbarrum project site (100%) which is 25Km of Sorby Hills site. The company also has two non-core assets, one in Western Australia and one in Columbia.

Analyst

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Disclosure - Readers should note that East Coast Research has been engaged and paid by the company featured in this report for ongoing research coverage.

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Boab to become Sorby Hills 100% owner

Boab Metals has signed an option agreement with joint venture partner Henan Yuguang Gold & Lead Co. Ltd (“Yuguang”) to acquire their 25% stake in the Sorby Hills Lead-Silver-Zinc Project, located in the Kimberley Region of Western Australia. The option can be exercised if Boab reaches a Final Investment Decision (FID) on the Sorby Hills Project within the next 12 months. If the option is exercised, Boab will make the following payments to Yuguang:

- Tranche 1: A\$12.5 million upon exercising the option and acquiring Yuguang's 25% joint venture interest.
- Tranche 2: A\$5.5 million, payable within 12 months of commencing concentrate production at Sorby Hills.
- Tranche 3: A\$5.0 million, payable within 18 months of commencing concentrate production at Sorby Hills.

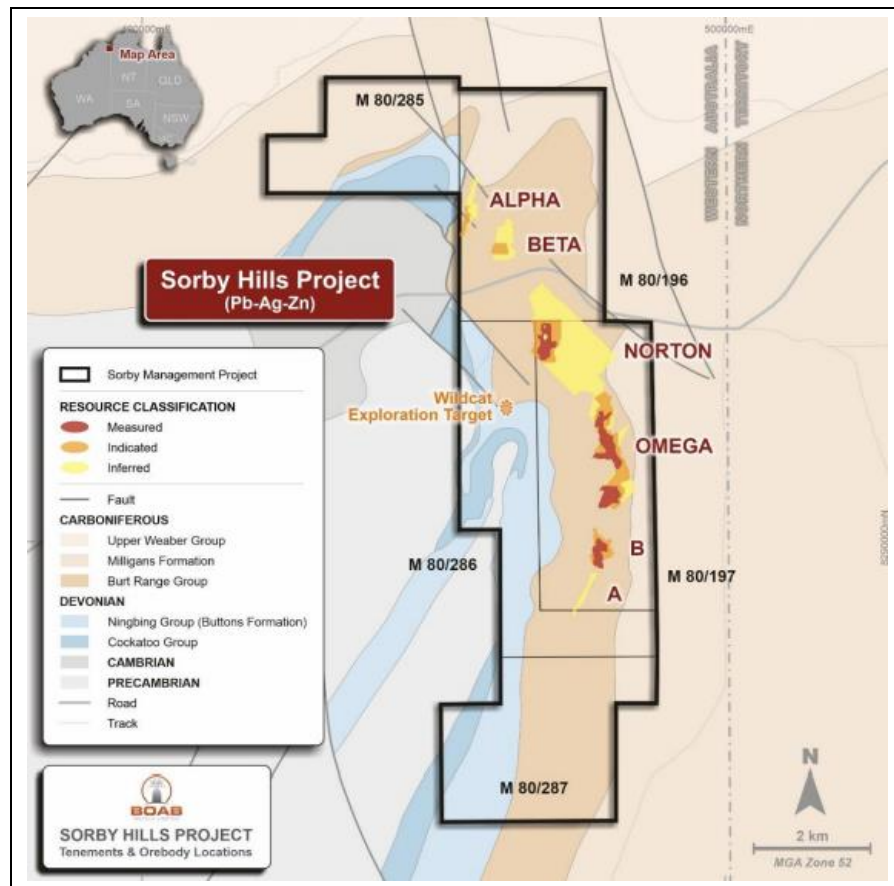
It is important to note that the option agreement requires no immediate payment to Yuguang and allows for Tranche 1 payment to be met with funds raised at FID.

Boab's full ownership of the project, along with the elimination of direct Chinese ownership, is likely to enhance access to Australian government funding sources, such as the Northern Australia Infrastructure Facility (NAIF), for the project's development. This streamlined ownership structure is also expected to ease offtake negotiations and attract potential financing from offtakers.

In our view, Boab now has strong incentives and a clear path to reach a Final Investment Decision (FID) on the Sorby Hills Project within the next 12 months.

Boab has again mentioned in the same announcement that *“The Company is in advanced discussions with preferred offtake parties.”* It has further explained that *“Whilst negotiations of offtake terms is well progressed, the Company has not sought to complete the award of the offtake for the Sorby Hills concentrate until this option agreement is finalised to maximise offtake value and the potential for securing project finance from the offtake parties. With the Joint Venture option agreement now in place, Boab will re-engage with potential project financiers and offtakers based on having the option to acquire 100% ownership of the Project and the Sorby Hills concentrate.”*

Figure 1: Sorby Hills project



Sorby Hills is one of the largest undeveloped, near-surface lead-silver-zinc deposits in Australia

Source: Company

Positive FEED results have enhanced Sorby Hills Project's economics

Following the Definitive Feasibility Study (DFS), Boab identified several opportunities to optimise and de-risk the Sorby Hills Project both technically and economically. Over the past year, the company has successfully capitalised on these opportunities while completing Front-End Engineering & Design (FEED) for the Process Plant in collaboration with GR Engineering Services (GRES), resulting in significant project improvements.

Key highlights of the FEED study Base Case include:

- Upfront capital expenditure of A\$264 million (A\$245m in the DFS);
- Average C1 cost of US\$0.36 per pound of payable lead, including silver credits (US\$0.39/lb in the DFS);
- Pre-tax NPV₈ of A\$411 million (A\$370m in the DFS), with a pre-tax IRR of 37% (35% in the DFS);
- Average annual EBITDA of A\$126 million (A\$119m in the DFS).

These metrics reflect project updates alone, excluding any changes in macroeconomic assumptions or lead and silver prices, and delivered an increase of +A\$73 million in net cash flow and +A\$41 million in NPV₈ compared to the DFS. Notably, the net change to pre-production capital expenditure remained limited despite inflationary pressures since the DFS was released in December 2022, while project pre-tax cash flows over the first five years of production improved by +A\$150 million.

Project financiers typically seek a substantial margin of safety in relation to the assumptions and outcomes of the DFS. In our view, the updated DFS figures offer an increased margin of safety for the project's economics and present a stronger financial profile to support debt financing.

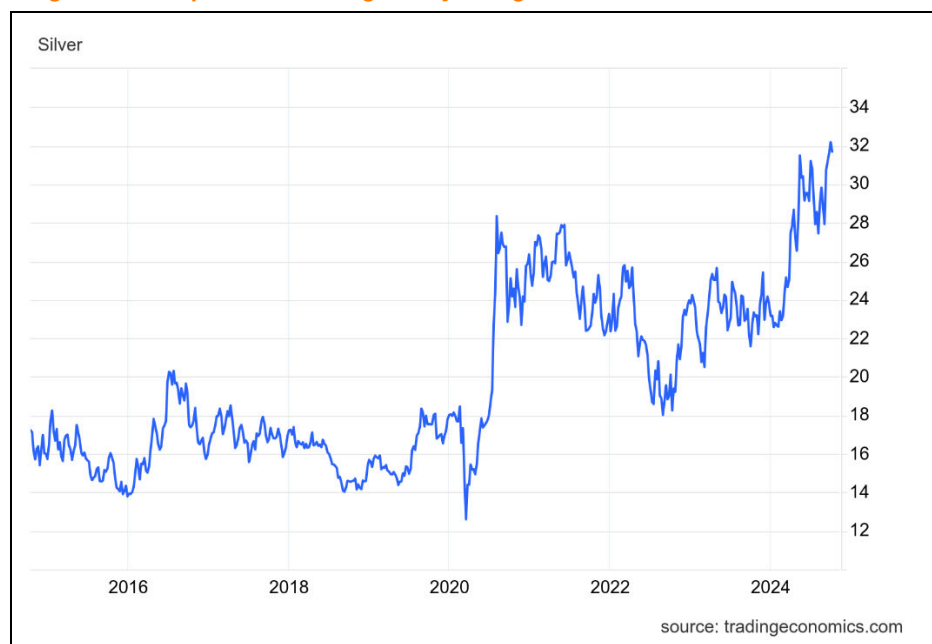
Lead and silver prices hold strong

Unlike most so-called green metals, including lithium, nickel and REEs, lead and silver prices have held up despite the downturn in commodity prices in the last 18 months.

Silver prices are already trading at 10-year high levels, driven by the rise in demand for precious metals in general and the increasing industrial demand for the metal due to its application in the manufacturing of solar panels.

Silver prices are currently trading above the US\$30/ounce mark, well above the levels assumed in the Sorby Hills DFS. We expect silver's strength to persist in the near term due to limited investment in new mine developments over the past 2-3 years. As a result of the persisting poor sentiment over the entire commodity sector, higher commodity prices don't automatically result in increased investment in new mine developments. With rising demand and constrained supply, the natural outcome is likely to be further increases in commodity prices.

Figure 2: Silver prices are trading at 10-year high levels

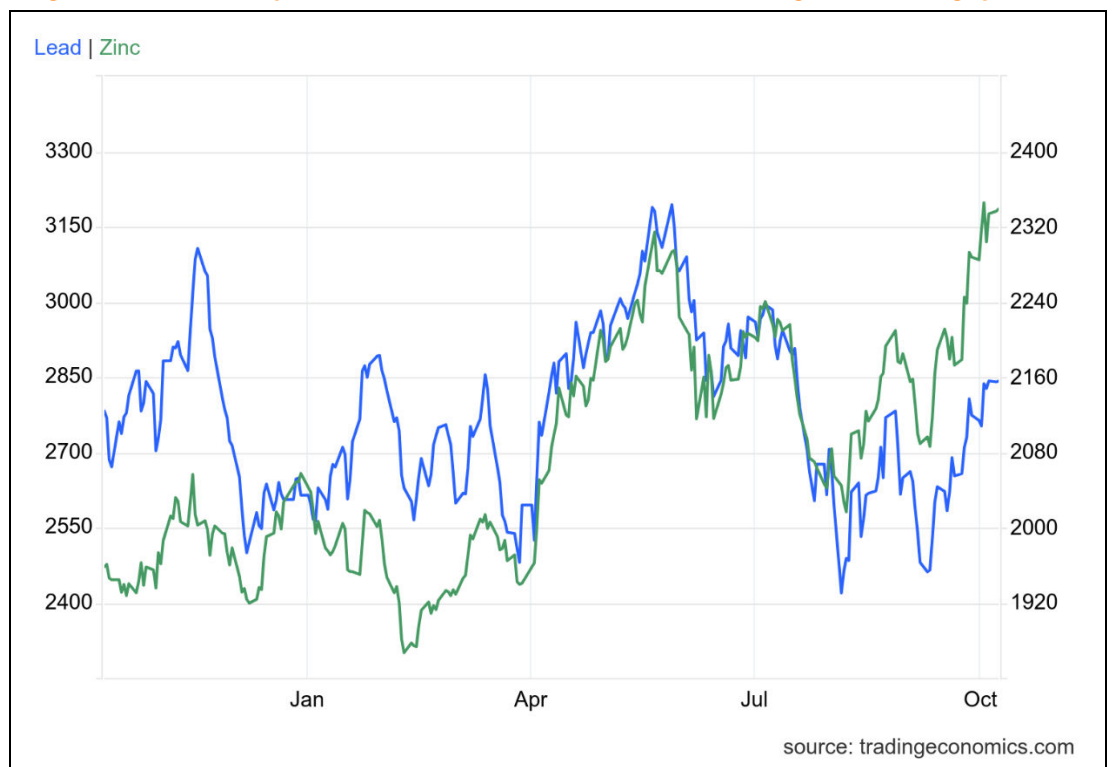


Source: Trading Economics

On the other hand, we see a further recovery in lead prices in the near term. Looking at Figure 2, you can notice the historical correlation between lead and zinc prices. Several factors contribute to this relationship:

- **Co-production:** Lead and zinc are frequently found together in the same ore deposits and are often co-produced during mining. As a result, supply disruptions or expansions in one metal can impact the other, leading to price movements in both.
- **Similar demand drivers:** Both lead and zinc are used in industries that sometimes overlap, particularly in construction, automotive, and manufacturing. Zinc is primarily used for galvanising steel (to prevent corrosion), while lead is mainly used in batteries, especially for vehicles. Economic conditions that affect these industries can influence both metals similarly, driving a degree of correlation in their prices.
- **Global economic factors:** Macroeconomic events, such as changes in industrial production, interest rates, or trade policies, can affect both metals. For instance, economic slowdowns often reduce demand for industrial metals, including lead and zinc, which can result in both prices moving in the same direction.

Figure 3: Lead and zinc prices show historical correlation, with lead having some catching up to do



Lead prices are likely to rise in the near term to catch up with the rise in zinc prices

Source: Trading Economics

As shown in Figure 3, zinc prices are currently trading near their May 2024 highs, while lead prices remain close to 1-year lows. This suggests that lead prices may have some catching up to do in the near term.

Valuation of A\$0.44-\$0.49 per share

In our December 2023 coverage of BML ([available here](#)), we valued the company at A\$0.70 per share in a base-case scenario and A\$0.81 per share in a bull-case scenario, using a DCF model primarily based on the Sorby Hills DFS outcomes. We've now updated our model to reflect the results of the completed FEED study and assume 100% ownership of Sorby Hills by Boab. The decline in our revised valuation range is mainly due to higher dilution from BML needing to raise more equity capital as the sole owner of the project and our lower estimate of the share price at which BML is likely to raise that capital, as well as the A\$23m cash outflow to Yuguang as part of the option agreement. We have also assumed the production at Sorby Hills to commence a year later in FY27 in our updated model.

Below is the summary of our updated DCF valuation range (Figure 4). Our updated target price of A\$0.462 represents a Price/NAV of 0.26x, indicating a significant valuation headroom to the current share price. With the opportunity to become a lead-silver producer in the next couple of years, BML offers exposure to the rising silver prices at an attractive valuation, in our opinion.

Figure 4: DCF-based valuation for BML (post equity dilution)

| BML Valuation (A\$ m) | Base Case | Bull Case |
|---|------------------|------------------|
| Present value of FCF | 180.5 | 223.5 |
| PV of Terminal FCF | 193.1 | 194.6 |
| Net debt (cash) | (5.7) | (5.7) |
| Firm value (A\$ m) | 379.3 | 423.7 |
| Diluted Shares (m) | 869.6 | 869.6 |
| Implied price (A\$ cents) | 44 | 49 |
| Current price (A\$ cents) | 12.0 | 12.0 |
| Upside (%) | 263.5% | 306.1% |
| Mid-point Target Price (A\$ cents) | 46.2 | |
| Price / NAV (X) | 0.26x | |

Source: East Coast Research

Re-rating of BML

BML's stock is currently trading below our mid-point target valuation. Achieving the following milestones is likely to enable a re-rating on the stock:

- An announcement of **a successful offtake agreement** will increase confidence in the project's economics and debt funding prospects.
- An announcement of **a successful debt funding arrangement** will be a major step towards closing the project's funding requirements and will increase investors' confidence in the project.
- **Successful completion of the funding plan:** We believe the biggest catalyst for a value uplift would be successfully closing a favourable Final Investment Decision (FID).

This will be a testimony of the project's economics and will open the way towards production.

- **Timely commencement** of production from Sorby Hills following a successful FID will enhance the management's reputation of delivering on promise and consequently attract more investors.
- **Any increase in lead and silver prices** will directly impact the project's future cash flows and its expected return profile.
- An **upgrade in the current mining reserves at Sorby Hills** through further exploration activities will expand the life of the mine, thereby enhancing the project value.

Risks

We see the following key risks to our investment thesis for BML:

- **Underlying commodity price risk:** Historically, BML's share price has stayed in tandem with the global silver prices. This exposes BML to commodity price risk, which depends on macroeconomic factors and demand and supply dynamics of the underlying metals, i.e., lead and silver. Any prolonged drop in lead and silver prices will be detrimental to our investment thesis.
- **Funding risk:** BML is required to raise substantial amounts of capital to commence mining developments. Raising funds on favourable terms (both debt and equity) and in a timely manner continues to be the biggest challenge for the company as of now.
- **Project delays:** Any potential delay in initiating mining activity, either due to funding or operational challenges, will negatively affect the cash flow projections and potential shareholders' returns.
- **Geological risk:** For a resources company such as BML, there exists a perennial risk of downward estimates of reserve figures. There also exists a risk of re-categorisation of the Indicated Resources to Inferred Resources in further studies. Any such incident will negatively impact the stock's valuation.

Appendix V: Analyst's Qualifications

Behzad Golmohammadi, the lead analyst on this report, is an equity research analyst at Shares in Value (East Coast Research).

- Behzad has a bachelor's degree in Engineering (Industrial) and a master's degree in Applied Finance (Investing) from Sydney Business School, where he was the top performer in his cohort. He has also passed the first two levels of the CFA Program.
- Behzad has several years of experience working as an Equity Research Analyst and Technical Analyst in Australia and overseas and has a broad knowledge of ASX-listed companies. Combining his technical background in engineering with his financial analysis skills has allowed him to establish himself as a resources analyst, also capable of analysing companies in a variety of other industries.

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