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HALLGARTEN & COMPANY

Corporate Actions Brief

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Neometals (ASX: NMT)
Strategy: LONG

Key Metrics			
Price (AUD)	$ 0.10		
12-Month Target Price (AUD)	$ 0.28		
Upside to Target	180%		
12mth hi-low	$0.025-$0.115		
Market Cap (AUD mn)	$ 50.90		
Shares Outstanding (mns)	509.0		
Fully diluted*	563.0		
	FY14	**FY15e**	**FY16e**
Consensus EPS		n.a	n.a
Hallgarten EPS		($0.01)	($0.01)
Actual EPS	($0.14)		

Neometals

Chinese Lithium Major Grabs Mt Marion

- + Deal with Chinese major on lithium project brings an immediate cash windfall for Neometals with the promise of more cash to come
- + Initial deal puts US$100mn valuation on project in its current state.
- + Further buyout of Neometals position is a strong possibility
- + Automatic production decision at settlement
- + The recent acquisition of neighbouring territory reduces infrastructure capex and adds potential mineralisation along trend
- + The company will have over AU$30mn in cash when first stage of transaction closes
- + This gives NMT a substantial warchest for bargain buying in what is a buyer's market
- ✘ Approvals are still required
- ✘ Focus will now be the Titanium/Vanadium, which may prove tougher to find partners or offtakers

A Frenzy of Resource Envy

Neometals' canny management have managed to whip China's second largest lithium producer Jiangxi Ganfeng Lithium into a state of "resource envy" with the result that a deal has finally been cut that brings the Chinese group in as a major shareholder and the offtaker for the Mount Marion project. It was always foreseeable (though not inevitable) that the swoop on Talision Lithium by Chengdu Tianqi for AUD$848mn (with 49% later on-sold to Rockwood) would tempt other Chinese (or Asian) lithium users to start buzzing around Mount Marion looking for a toehold. Now the move has come and Neometals has made a big step up the ladder towards getting the project into production.

The Deal

Last week it was announced that Neometals and its partner, Mineral Resources Limited (ASX: MIN) had entered into a conditional Memorandum of Understanding with the aforementioned Ganfeng group. The vehicle for developing Mount Marion has been Neometal's 70% held subsidiary, RIM (the other 30% being held by Mineral Resources).

The key terms of the deal are:

- Ganfeng will acquire an initial 25% shareholding in RIM by way of share sale and equity subscription leaving Neometals with 45% of RIM, and MIN with 30% of RIM.
- Neometals will net around US$19.5 million from the sale of some of its RIM position to Ganfeng
- MinRes and Ganfeng will be granted options by Neometals which allows them to increase their respective shareholdings in RIM to 43.1% by around Q4 of 2016 by way of share purchase from Neometals. If these options are fully exercised, Neometals will be left holding 13.8% of RIM

- MinRes maintains the right to build, own and operate the Mount Marion mining, crushing and beneficiation infrastructure and equipment pursuant to a fixed price mining services contract
- Ganfeng will have a long-term offtake for 100% of the spodumene produced from the Mt Marion at benchmarked market prices subject to an agreed price floor. Under the agreement, from Year 4 onwards RIM reserves the right to take 51% of the total production if greater commercial benefit can be derived from such product
- There will be prudential corporate governance arrangements for RIM between Ganfeng and RIM's existing shareholders with equal board representation for all shareholders.

The equity subscription will be around US$9mn to refund MinRes and Neometals shareholder loans to the RIM venture. This will be on top of the amount Ganfeng pays Neometals to acquire 16% of existing shares. Ergo, Ganfeng pays out US$25mn for 25% putting a valuation of US$100mn on the project at that point in time. This is rather impressive considering that ground has not even been broken.

Ganfeng's release to the Shenzhen Stock Exchange indicates the valuation metric for the options to acquire further shares of Neometals is US$1.5mn per 1%, putting a valuation of US$150mn.

The deal will be subject to approvals at various levels, government (both Australian and Chinese provincial), corporate and shareholders.

The goal is to give full effect to the terms of the MOU with execution and financial close scheduled for 31 August 2015. The financial close will trigger a Final Investment Decision for the Mt Marion lithium concentrate operation and commencement of full plant construction and assemblage as all necessary approvals for the project have been secured by RIM. MIN is already well advanced with development planning and procurement, with commissioning and production of lithium concentrate product anticipated by mid-2016.

Important to Note

This deal only encompasses the Mount Marion Mine and concentration plant. The deal that Neometals has with MinRes (on a 70/30 basis) for on-processing of lithium concentrate (as highlighted in our previous note on Neometals) using the ELi technology remains unchanged and Neometals (and MinRes) will be able to channel their share of the Mount Marion production to whatever facility they eventually develop together.

A Refresher on Mount Marion

The Mount Marion lithium project was added to the Neometals portfolio in September 2009. It is one of Australia's largest high-grade lithium spodumene occurrences. It is located some 40km south of Kalgoorlie in the Goldfields region of Western Australia. The project is comprised of two Mining Leases, M15/999 and M15/1000, which cover the outcropping pegmatites.

From the 1960's through to the 1980's, Western Mining (which was taken over by BHP-Billiton in 2005) carried out extensive exploration on the Mount Marion tenements. It completed a study that considered mining, beneficiation and chemical processing to produce 5,000 tpa of lithium carbonate over a mine life of 10 years. In 1996, Associated Minerals Pty Ltd completed a pre-feasibility study to produce lithium and potassium products. Pilot test work produced spodumene concentrates grading at 6.5 to 7 % Li_2O, with lithium recoveries of between 75% and 83%. After that time the deposit was held by a private individual, with no further meaningful exploration activities conducted until Neometals (then known as Reed Resources) came into the picture in 2009.

Then in July 2011, in a revised JORC-compliant resource prepared by Hellman & Schofield, a further increase (of 39%) was registered.

Mt Marion

At 0.3% Li2O cut-off

Category	Tonnage mns	LiO2 %	F2O3 %	LiO2 tonnes
Measured	2.0	1.5	0.9	29,200
Indicated	4.8	1.4	1.2	66,300
Inferred	8.0	1.3	1.3	105,100
Total	14.8	1.3	1.2	200,600

The resource is open along strike and down dip. A new resource exploration potential estimate is being prepared as part of an extensive resource expansion and infill drilling program under development.

Below can be seen an aerial representation of the site layout:

The current plan is to mine 1.2-1.3mn tonnes of ore per annum to produce 200,000 tonnes of 6%

chemical grade spodumene concentrate which will be trucked south to the port of Esperance for shipping to China. A twenty year mine life was envisioned.

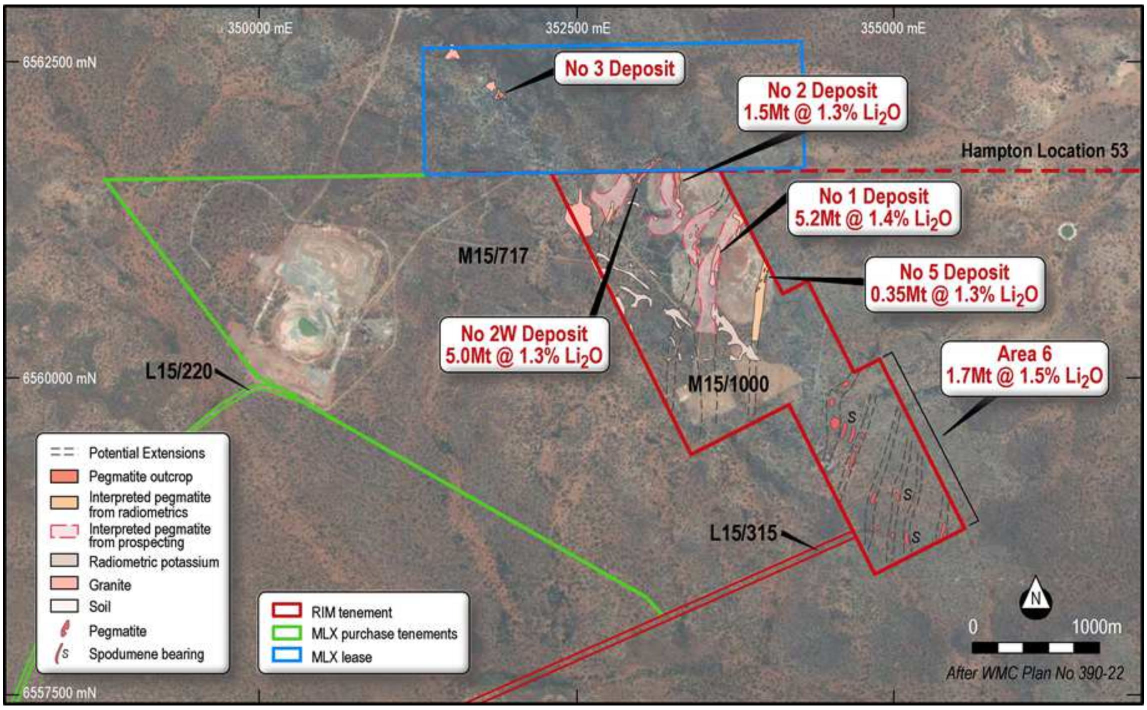
Neometals Secures its Patch

The Ganfeng deal followed hot on the heels of completing a transaction in which Neometals secured some ground that was strategic to its future operations. The Mount Marion Lithium project was far from lacking in mineable resources but that did not hold Neometals back from securing a portfolio of neighbouring properties from Metals X to ensure that no interlopers appear on its doorstep now that it is ramping up the project. At just over a kilometre wide and several kilometres long the Mount Marion concession held by Neometals is rather constraining, particularly as the main mineralisation borders the top northern edge of the concession. It has necessitated planning for tailings and waste dumps in the limited space available. One might say that the company “didn’t have space to swing a cat”.

The property deal has opened up the horizon for the Mount Marion venture partners as they have been able to not only secure territory for placing mine support functions with better ergonomics but it has also secured extension zones to two of its major identified trends.

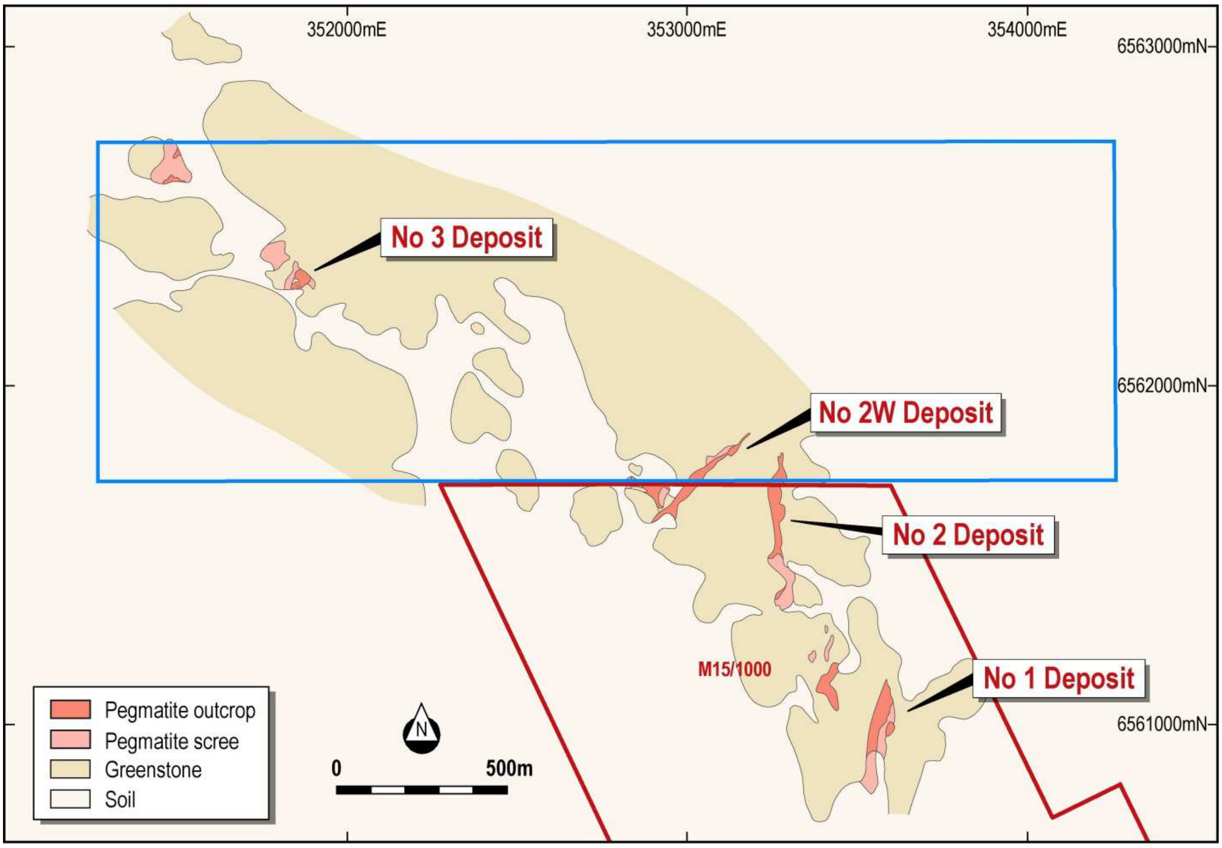
The Metals X Deal

This deal was first mooted back in January and has taken until July to solidify. In this transaction RIM agreed to lease, from Metals X Ltd (ASX: MLX), the lithium mining rights over a portion of the Hampton Area Location 53, which adjoins the Mt Marion Lithium Project, and to purchase an adjoining mining lease and associated infrastructure from Metals X.



The purchase of the adjoining leases and associated infrastructure will provide potential tailings storage, optimal waste dump positioning and access to an existing heavy haul road which will benefit the future development of Mt Marion.
The terms of the transaction are:

- Neometals will lease the land area over a portion of the Hampton Area Location 53 which adjoins the Mt Marion Lithium Project for an initial 10-year period with two periods to extend for a further five-year period. The Lease fee will be $90,000 per annum indexed to the Consumer Price Index
- Neometals will be allowed to mine and extract lithium ores from the lease area and store associated waste from mining on the land area. Neometals will pay a royalty of $2/t of ore mined and processed from the land area as well as a 1.5% NSR on the sale of any downstream products generated from mining and processing of ores won from the land area
- Metals X will sell outright to Neometals (or its nominee) Mining Lease M15/717 and infrastructure located upon it. The purchase price is $250,000 and Neometals will take over all liabilities and MRF responsibility associated with the tenement.
- Metals X will retain the exclusive rights to access and mine gold from the tenement and pre-emptive rights over any sale of the tenement
- Metals X will transfer to Neometals Miscellaneous Licence 15/220 but retain access rights to use such private road for access to its exclusive gold rights



The deal with Metals X allows RIM to explore and develop extensions of the No 2 and No 2 West Lithium Deposits, located on the northern boundary of the Mt Marion Project. Up until now the Pit2 and Pit 2 West in the mine plan abutted the tenement border.

Previous drilling at the No 2 and No 2 West deposits has indicated that lithium mineralisation continues into the newly leased tenements, providing RIM an opportunity to expand the current JORC resource with further exploration. The new deal gives latitude to pursue the deposits to the north/northeast with expanded pit shells, offering the potential for expansion of the project and its Life of Mine.

Implications

One does not need to be a mathematical genius to work out that this deal leaves Neometals in a very strong position financially and, at least for the moment severely undervalued. When we wrote our note on Neometals last year the stock's price was under two cents and the cash per share was over 12 cents. That situation rapidly narrowed in recent months but now the latest transaction widens the discount even though the price has moved up to 10 cents in recent times.

The money in from Ganfeng amounts to US$19.5mn (which it should be noted is AU$26.3mn). This money goes directly into Neometals' cash balance. The subscription part of the deal brings money into RIM which shall repay loans to RIM from NMT and MinRes and thus add more cash to NMT's war chest.

Going forward, if MinRes does not exercise its option to increase its RIM equity share then Ganfeng can potentially move to 49% (an increase of 24%) at a total cost of US$61mn. This implies that the Chinese company would be paying US$36mn for an additional 24% (or $1.5mn per percentage point).

If MinRes was to exercise its option to increase its equity share in RIM, then both would both go up to 43.1% and NMT would go down to 13.8% from 45% for US$46.8mn.

This values the mine project at US$150mn or $1,570/t of contained Li_2O (Measured & Indicated).

The March quarterly had AUD$9mn in cash, of which $3mn was available and $6mn was tied up in performance bonds. This would have gone down in the interim. The performance bond funds are in the process of being released now, they amortise down over the next couple of years.

The latest transaction will take cash to over AUD$30mn making a strong war-chest in what is a buyers' market in Australian mineral assets.

Risk Factors

Our risk factors for Neometals have been reduced dramatically as a result of this latest transaction. While it is not a certainly that the Mount Marion project will get the go ahead the probability would seem very high indeed as the Chinese are not paying US$19.3mn to Neometals for a chance to open a fortune cookie.

Therefore Mount Marion looks like a "go". With an option to step up and take more control, it is hard to see the Chinese resisting this temptation. As we have also noted the MinRes deal has the plant being built without Neometals having to contribute (essentially, a free carry).

Thus the main risks now for Neometals on this transaction are;

- Approvals not being granted (this would be the second of Australia's three lithium projects of note to pass into Chinese hands)
- Change in Chinese strategy and they don't step up to exercise their option
- Negative decision on starting project

All of these appear unlikely outcomes. In particular the Ganfeng position is a minority stake and thus does not represent a change of control. As for the project decision this is deemed to be "automatic" at the point where Ganfeng's funding is in place.

Beyond these we need to look at the residual "controlled" business which is the Barrambie Titanium/Vanadium project. This shall be a subject for our next note on Neometals.

Conclusion

Neometals has been in "lithium" mode for the best part of this decade. This phase is now drawing to a close. The company will be left with a minority stake from which it will either be bought out or just sit on as a free-carried cash-cow. Next up is commercializing the Eli process which

At Barrambie, the Scoping Study indicated the potential for production costs for titanium being half that of the average of its western competitors, we await the PFS to validate the scale up of the licensed technology. One should not discount the possibility of Neometals adding a new vertical in a new metal. The company is most definitely not stuck in any rut and will act opportunistically in entering any metal it feels will ultimately pay off. With a large cash hoard in a buyer's market Neometals is very strongly positioned. As the company has shown in the past it is also a bargain buyer and not disposed to paying up when it can pick up an asset for next to nothing by some other means.

Meanwhile, developments continue apace at Neometals' Mount Marion. While the territory added may not have had much work done on it from the Lithium perspective the company, with this deal, has achieved two goals in one stroke. It has expanded the ground available for it to have logistical "legroom" while also securing the extension to two of its more prospective future mining areas. This latter aspect increases immensely the flexibility that the partners will have with mine and pit design.

The latest deal has further widened the chasm between the current market cap and the conceptual value of the cash plus the balance of the value of NMT's Mt Marion holding. The market, at the current valuation, gives no value at all to the Barrambie project, let alone the bundle of nickel assets that NMT has on hand and is looking to divest. This is clearly an anomaly that will be corrected by a further upward move in the share price. The experience of Talison and RB Energy shows the massive share price uplift that occurs in Lithium projects once they hit the path to production.

The chart below leaves most other miners looking wan indeed. We regard Neometals at current levels as a **Long** call and have hiked our twelve-month target price from $0.17 to $0.28.


AU:NMT Daily
7/21/15
0.12
0.11
0.10
0.09
0.08
0.07
0.06
0.05
0.04
0.03
0.02
Volume
©BigCharts.com
20
15
10
5
0
Millions
Aug
Sep
Oct
Nov
Dec
15
Feb
Mar
Apr
May
Jun
Jul

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