

VALUATION UPDATE | PUBLISHED ON 20 JUNE 2023

Unencumbered Nickel Units; Upgrading PT

CTM.ASX | CENTAURUS METALS LIMITED | NICKEL | DEVELOPMENT & EXPLORATION

PRICE

A\$0.89/sh

TARGET PRICE

A\$2.00/sh

(FROM A\$1.90/sh)

RECOMMENDATION

SPECULATIVE BUY

(UNCHANGED)

ANALYST

STEVEN CLARK

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Event

CTM has announced the acquisition of 100% of the offtake rights over the Jaguar Nickel Project (JNP) from Vale. Vale has agreed to extinguish its Jaguar offtake rights in exchange for a +1.20% and +1.25% uplift in net operating revenue royalties payable on nickel sulphate and nickel concentrate products respectively.

Impact

Key impediment to Jaguar offtake and financing removed at an amicable cost. Vale's net operating revenue royalty over nickel sulphate products has increased from 0.55% under the original JNP Sale & Purchase Agreement to 1.75%, while royalties payable on nickel concentrate and other products have increased from 0.75% to 2.00%. Subsequent to our last published note we have i) adopted the revised nickel sulphate royalty rate under our base case POX development scenario and ii) reduced our model risk weighting factor by 5% for a net +\$0.13/sh uplift in valuation. Delays to the relinquishment of Vale's original JNP concentrate offtake rights previously presented as a key risk to project development timelines, **while the now unencumbered pathway for strategic involvement in the JNP provides an imperative to own the stock**, in our view. We have left all prior model assumptions unchanged ahead of the release of the Jaguar DFS incorporating the significantly enlarged resource, which we expect to grow beyond +1mt of contained nickel in FY24.

Reiterating the appeal of Jaguar offtake through the lens of end users. Recent M&A activity (i.e. Wyloo's on-market takeover of MCR-ASX) adds to the supportive backdrop for scaled nickel sulphide projects, and we envision strong demand from end users for nickel sulphate offtake from the JNP, which currently hosts the largest ASX-listed nickel resource ex-BHP (Fig. 5). Assuming right-sized average annual nickel sulphate output of ~20ktpa, the Jaguar resource comfortably underpins a +25-year mine life, with the scale and ESG credentials of the JNP likely to attract strong interest from OEMs. Recent refinery pilot plant testwork results have confirmed the production of a 4N battery-grade nickel sulphate product with low impurities from JNP feed.

Action

We maintain our Speculative Buy rating and increase our Price Target to \$2.00/sh (prev. \$1.90/sh). Our revised valuation increases to A\$2.72/sh at spot nickel of US\$10.23/lb. Whilst acknowledging a comparatively lower resource grade relative to domestic ASX-listed peers (although noting Jaguar resources are primarily open pit) and perceived jurisdiction risk, CTM continues to trade at an excessive discount to its peers on an EV/resource basis at ~A\$370/t (peer avg: A\$1,400/t).

Catalysts

- Assay results
- Jaguar DFS release (DecQ'23) and FID
- Strategic transactions involving nickel sulphate offtake and financing
- M&A activity
- Nickel price and sentiment

Market Statistics

Share Price	0.89	A\$/sh
Price Target (1.0x NAV)	2.00	A\$/sh
Valuation	2.01	A\$/sh

Issued Capital

Fully Paid Ordinary	428.6	m
Unlisted Options	9.7	m
Total Dil. FP Ord	438.4	m

Market Capitalisation

Market Capitalisation	390	A\$m
Enterprise Value	367	A\$m
Cash (Mar'23)	23	A\$m
Debt (Mar'23)	Nil	A\$m

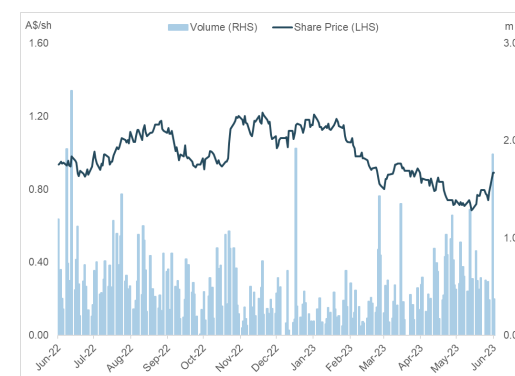
Directors

Dider Murcia	Chair
Darren Gordon	MD
Bruno Scarpelli	Dir
Natalia Streltsova	NED
Mark Hancock	NED
Chris Banasik	NED

Substantial Shareholders

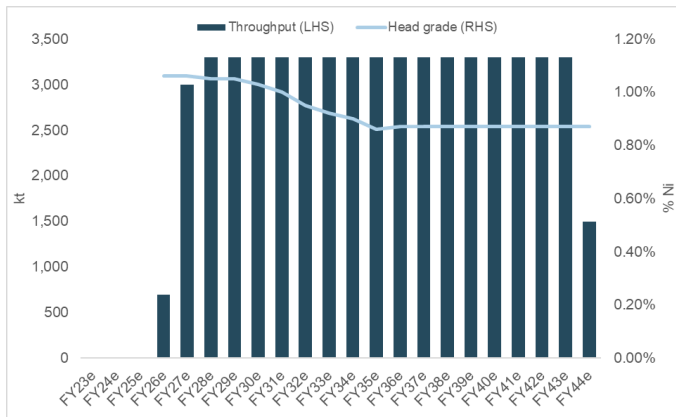
McCusker Holdings	13.1%
Sprott	9.1%
Regal	5.9%
Dundee	5.3%
Harmanis	5.0%

Performance



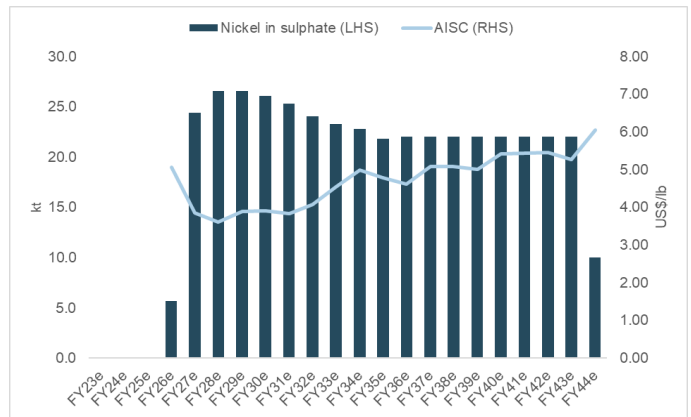
Source: IRESS

Figure 1: EH throughput and head grade assumptions



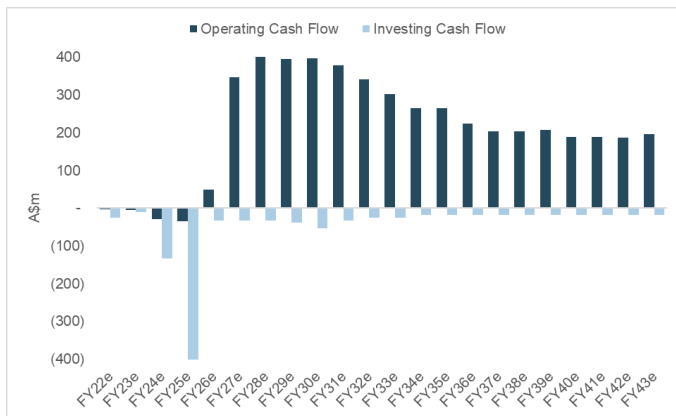
Source: Euroz Hartleys estimates

Figure 2: EH nickel sulphate production and AISC assumptions



Source: Euroz Hartleys estimates

Figure 3: EH Op/Inv cash flow forecasts



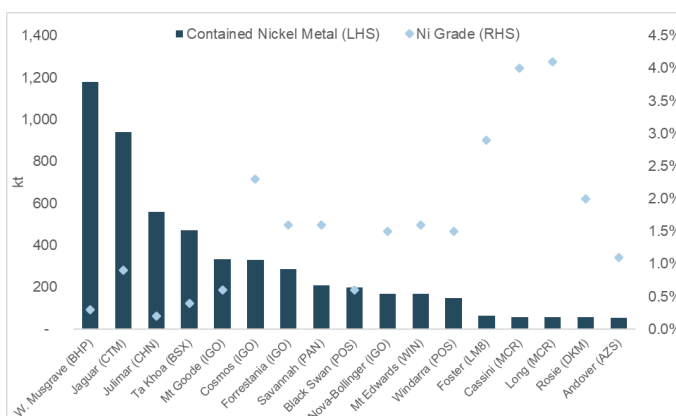
Source: Euroz Hartleys estimates

Figure 4: Val sensitivity to nickel price and sulphate premium

A\$/sh	Nickel Price (US\$/lb)						
	6.00	7.00	8.00	9.00	10.00	11.00	12.00
Nickel Sulphate Premium (US\$/lb) 0.50	0.55	1.03	1.51	1.99	2.47	2.95	3.43
0.60	0.60	1.08	1.56	2.04	2.52	3.00	3.48
0.70	0.65	1.13	1.61	2.09	2.57	3.05	3.53
0.80	0.70	1.17	1.65	2.13	2.61	3.09	3.57
0.90	0.74	1.22	1.70	2.18	2.66	3.14	3.62
1.00	0.79	1.27	1.75	2.23	2.71	3.19	3.67
1.10	0.84	1.32	1.80	2.28	2.76	3.24	3.72
1.20	0.89	1.37	1.85	2.33	2.81	3.29	3.77

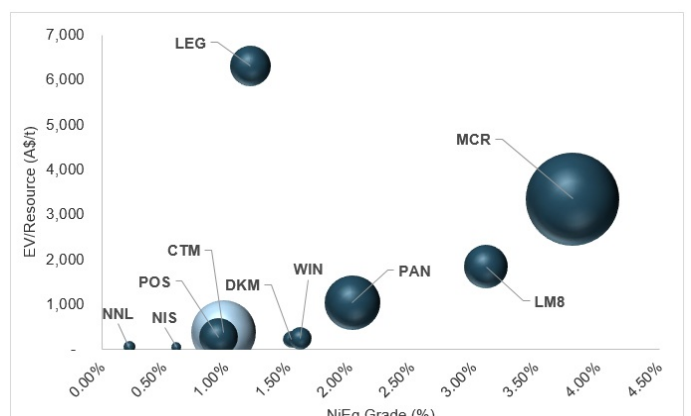
Source: Euroz Hartleys estimates

Figure 5: Largest ASX-listed nickel resource ex-BHP



Source: Company reports, Euroz Hartleys estimates

Figure 6: Cheap on an EV/Resource basis, below peer group avg.



Source: Company reports, Euroz Hartleys estimates

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Sprott	9.1%
Regal	5.9%
Dundee	5.3%
Harmanis	5.0%

Valuation			
	Risking	A\$m	A\$/sh
Jaguar Nickel Project	65%	796	1.82
Undeveloped Resources	100%	50	0.11
Jambreiro Iron Ore Project	100%	50	0.11
Corporate Overheads	100%	(36)	(0.08)
Cash		23	0.05
Total		883	2.01
Price Target (1.0x NAV, Rounded)			2.00

Model Assumptions			
	FY24E	FY25E	FY26E
Commodity Prices / FX			
Nickel (US\$/lb)	9.80	9.50	8.75
Nickel Sulphate Premia (US\$/lb)	0.80	0.80	0.80
Zinc (US\$/lb)	1.18	1.18	1.18
AUD/USD (x)	0.73	0.74	0.74
Production			
Nickel in concentrate (kt)	0.0	0.0	6.0
Nickel in sulphate (kt)	0.0	0.0	5.7
Mixed sulphide precipitate (kt)	0.0	0.0	2.5
Costs			
C1 Cost (US\$/lb)	0.00	0.00	3.88
AISC (US\$/lb)	0.00	0.00	5.06

Ratio Analysis			
	FY24E	FY25E	FY26E
Cash Flow (A\$m)	-30	-35	49
CFPS (A\$/sh)	-0.07	-0.08	0.11
CF Ratio (x)	-12.9	-11.1	7.8
Earnings (A\$m)	-30	-35	37
EPS (A\$/sh)	-0.07	-0.08	0.08
P/E (x)	na	na	10.5
EV/EBITDA (x)	na	na	3.8
EV/EBIT (x)	na	na	4.4
Net Debt (A\$m)	-203.7	328.9	312.2
ND/(ND + Equity) (%)	-179%	54%	50%
EBIT Margin (%)	na	na	46%
ROE (%)	-9%	-12%	12%
ROA (%)	-4%	-5%	6%

Profit & Loss			
Yr End 31 December (A\$m)	FY24E	FY25E	FY26E
(+) Revenue	0	0	162
(+) Interest revenue	0	0	0
(+) Other revenue	0	0	0
Total Revenue	0	0	162
(-) Costs of production	0	0	(66)
(-) Corporate overheads	(5)	(10)	(10)
(-) D&A	0	0	(12)
(-) Other	0	0	0
EBITDA	(5)	(10)	86
EBIT	(5)	(10)	74
(-) Interest expense	(25)	(25)	(25)
NPBT	(30)	(35)	50
(-) Minority interest	0	0	0
NPBT (ex-min.)	(30)	(35)	50
(-) Tax	0	0	(13)
Net Profit	(30)	(35)	37
(+/-) Net abnormal	0	0	0
Net Profit After Abnormal	(30)	(35)	37

Cash flow			
Yr End 31 December (A\$m)	FY24E	FY25E	FY26E
Net Profit	(30)	(35)	37
(+) Working Capital Adj.	0	0	0
(+) D&A	0	0	12
(+) Tax Expense	0	0	13
(-) Tax Paid	0	0	(13)
(+/-) Other	0	0	0
Operating Cashflow	(30)	(35)	49
(-) Capex & Development	(123)	(493)	(27)
(-) Exploration	(10)	(5)	(5)
(+/-) Other	0	0	0
Investing Cashflow	(133)	(498)	(32)
(+) Equity Issues	350	0	0
(+) Loan Drawdown	350	0	0
(-) Loan Repayment	0	0	0
(-) Dividends	0	0	0
(+/-) Other	0	0	0
Financing Cashflow	700	0	0
Net Cashflows	537	(533)	17
(+/-) FX Adj.	0	0	0
BoP Cash Balance	17	554	21
(+/-) Net Cashflows	537	(533)	17
(+/-) FX Adj.	0	0	0
EoP Cash Balance	554	21	38

Balance Sheet			
Yr End 31 December (A\$m)	FY24E	FY25E	FY26E
Assets			
Cash	554	21	38
Current Receivables	1	1	1
Other Current Assets	0	0	0
Non-Current Assets	123	616	632
Total Assets	678	639	671
Liabilities			
Borrowings	350	350	350
Current Accounts Payable	6	6	6
Other Liabilities	4	4	4
Total Liabilities	360	360	360
Net Assets	318	278	310

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Company disclosures

The companies and securities mentioned in this report, include:

Centaurus Metals Limited (CTM.ASX) | Price A\$0.89 | Target price A\$2.00 | Recommendation Speculative Buy;

Price, target price and rating as at 20 June 2023 (not covered)*

Other disclosures, disclaimers and certificates

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