

Centaurus Metals Ltd

(CTM \$0.67) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Jon Bishop	3 rd June 2021	\$1.15/sh

Downstream Processing Realises Material Ni Value

Event

CTM has delivered a highly detailed Value Enhancement Study for a nickel sulphate development of its flagship Jaguar Project, Brazil

Impact

An overall 84% inc. to post tax NPV8 to A\$1.1Bn;

The inclusion of PoX to produce Ni sulphate materially improves project economics via a 24 percentage point inc to payabilities;

Attracts a Ni sulphate premia - conservatively est at US\$0.50/lb - with clear upside with mkt demand growth highlighted below:

NPV8	US\$/lbs Nickel Sulphate Premia									
\$1,022.39	0.00	0.25	0.50	0.75	1.00	1.25	1.50	1.75	2.00	
NPV8 (A\$m)	850	936	1,022	1,108	1,195	1,281	1,367	1,453	1,539	

Resulting improved Op CF margin facilities access to increased mining inventory;

The processing flow sheet improves tolerance to lower grade feed.

Action

We maintain our Speculative Buy recommendation and \$1.15/sh Price Target.

Key Catalysts

- On-Going Drilling (2021: 40km DD Resource ext. and infill; 25km RC/DD Regional exploration);
- Submission of EIA/RIMA (coming weeks) - critical pathway;
- Resource Update (Mar Q FY'22) - Inferred conversion & grade;
- Resource Update (Dec H FY'23) - Inferred conversion & grade;
- Value Enhancement PoX DFS (Mid FY'23);

Centaurus Metals Ltd	Year End 30 June	
Share Price	\$0.67	A\$/sh
Issued Capital		
Fully paid Ord	343.7	m
Listed Opts (ex @ \$0.18/sh May'21)	19.5	m
Unlisted Options	12.1	m
Total Dil FP Ord	375.3	m
Market Capitalisation	251	A\$m
Enterprise Value	230	A\$m
Cash	21	A\$m
Debt	Nil	A\$m

Directors

D. Murcia	NE Chairman
D. Gordon	Mgr Director
B. Scarpelli	Ex Director
M. Hancock	NE Director
C. Banasik	NE Director

Shareholders

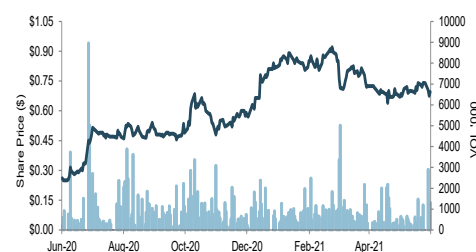
Top 20	59%
Directors & Management	4%
Sprott	10%

Company Details

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Email: office@centaurus.com.au

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Share Price Chart



Disclaimer

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Analysis

The Value Enhancement Study is a very comprehensive review of the Jaguar asset's downstream development potential.

The work highlights a +80% uplift to project value via a moderate US\$110m inc to upfront capex which serves to remove typical historical Ni payability discounts and introducing pricing premia via pursuit of the growing downstream refined battery metal product markets aligned with EV battery demand growth.

We have summarised the key operating and financial metrics vs our last published numbers and the base Scoping Study (released Mar 29th 2021) in the table below:

		EHSL last pub	Scoping	PoX Optimised
Pre-prod Capex	US\$m	178	178	288
Forex	US\$	0.75	0.75	0.75
Sustaining capex	US\$	138	138	213
Total Mined	mT		33	45
mined grade	Ni %		0.84	0.80
Throughput	mtpa	2.7	2.7	2.7
Availability	%	91.3	91.3	91.3
Total T Treated	mT	29.6	24	33.7
Grade	Ni %	1.1	1.1	1.01
Process Recovery	%	78	78	81.5
Production	kt pa	20	20	20
Total	kt	254	203	278
Total Sulphate	kt			262
Mine Life	Yrs	12	10	12.9
OPEX		45		
Open pit	US\$/t	20	18.1	19.6
Underground	US\$/t	60	50.5	47.5
Processing	US\$/t	15.0	11.3	28.0
By-Product Credit	US\$/t	-1.00	-1.07	-0.5
AISC payable	US\$/lb	3.5	2.97	3.94
LT Ni Price	US/lb	8.0	7.5	7.5
Sulphate Premia	US/lb	0	0	0.5
Forex	US\$	0.75	0.75	0.75
Payability	%	75	75	98
Av EBITDA pa	A\$m	219	164	252
Tax Rate	%	20	15	15/34
NPV10	A\$m	722	604*	1,108
Discount factor	%	50%	na	na
Valuation	A\$m	361		

*NB: NPV8

We highlight key departures being: higher mineable inventories; higher LOM; higher payabilities and price premium received.

The higher mining inventories is partially responsible for the higher operating costs (ie higher strip ratio of 6.5 vs 6:1 in the base case).

The higher payability is a key driver for CTM pursuing a DFS for the PoX processing route; the upside coming via possible premiums being realised for Ni sulphate.

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The Company has assumed US\$0.50/lb for the purpose of the Value Enhancement Study. However, we view it instructive to consider the leverage that growth to this sulphate market (in lock-step with the forecast EV battery demand growth) could deliver with improved net Ni pricing (above the LME benchmark):

NPV8	NPV8	US\$/lbs Nickel Sulphate Premia									
\$604.00	\$1,022.39	0.00	0.25	0.50	0.75	1.00	1.25	1.50	1.75	2.00	
Base Case	NPV8 (A\$m)	850	936	1,022	1,108	1,195	1,281	1,367	1,453	1,539	

For greater comparability (so as to better highlight the favourable economics PoX offers) we also highlight the impact of higher payability at various sulphate premiums (Above Ni LME benchmark) for a 10yr LOM to match the Base Case Scenario:

NPV8	NPV8	US\$/lbs Nickel Sulphate Premia									
\$604.00	\$839.29	0.00	0.25	0.50	0.75	1.00	1.25	1.50	1.75	2.00	
Base Case	NPV8 (A\$m)	888	764	839	915	990	1,066	1,142	1,217	1,293	

We have removed capex and associated prod from two additional UG developments considered for the Value Enhancement Study for consistency.

Though the DFS - not due until end CY'22 - requires considerably more work (inc. Resource definition), we highlight the valuation impact on an unrisks basis (we apply a 50% risk weighting to our Base Case Scoping Study based SOTP \$1.09/sh Valuation) of taking the Jaguar Project further downstream in terms of the ultimate development decision:

ASSET VALUATION		
Valuation	A\$m	A\$/sh.
(+) Jaguar Ni Sulphate (unrisks)	1,022	\$ 2.78
(+/-) Hedging	0	\$ -
(-) Corporate	-32	-\$ 0.09
(+) Exploration	50	\$ 0.14
(-) Debt	0	\$ -
(+) Unpaid Capital	3	\$ 0.01
(+) Cash	20	\$ 0.05
Valuation	1,063	\$ 2.90

This upside is the basis for our 'Bull Case' under the Sensitivity Page.

KEY BENEFITS OF PoX SOLUTION - More Tonnes, More Green

Two elements that we like regarding the PoX approach beyond improved payabilities and potential sulphate premiums:

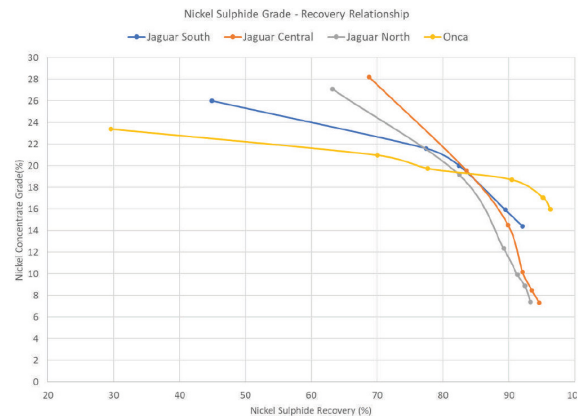
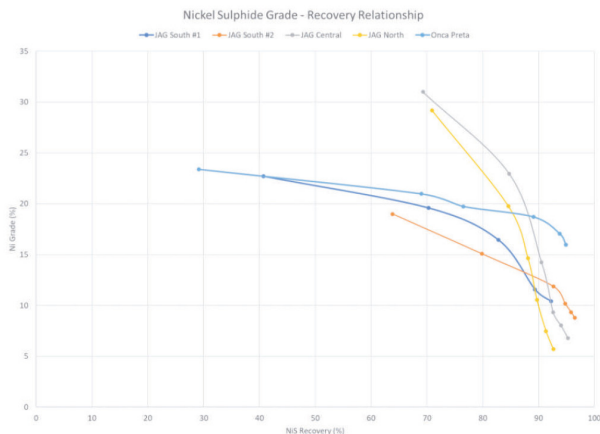
- the process provides for greater tolerance for av. head grade/ Resource grade;
- thereby enabling the project to develop a greater Resource inventory.

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Ni Sulphide Recovery-Grade Relationships (Value Enhancement for PoX - LHS; Base Case Flotation for Ni Conc - RHS)

On top of which, CTMs Jaguar Central Project has the added ESG appeal of alignment with the EV battery metal space. Beyond which, and whilst the green aspect of the Jaguar Project has not yet be quantified, we highlight that the project has tangible green credentials that may yet realise economic benefits (higher prices for products via carbon credits or similar):

- +80% of power consumption is derived from renewable power sources (grid electricity is derived hydro with scope to inc. to 100% of grid);
- PoX circuit provides for more inert tailings in tailings dam;

With 4 diamond rigs in operation (and a further 2-3 to be deployed imminently) and a new RC rig underway on regional targets, as well as the existing 562.6kt Ni Resource (vs the 341kt contained Ni as the basis for the Value Enhancement Study), there is material upside to the scope to operating life in time.

CTM is well funded with a cash balance of ~\$20m and \$3m of unpaid capital from ITM and vested options;

Key catalysts remain the release of the following:

- On-going drilling and assay results;
- Submission of EIA/RIMA (coming weeks) - critical pathway;
- Resource update (due Mar Q CY'22);
- DFS Results (Dec Q, 2022);

Our Price Target of \$1.15/sh remains: The CTM investment is simply that Jaguar is a very large, low cost development opportunity with clear scope to build scale and prosecute a downstream growth market with clear ESG overprint.

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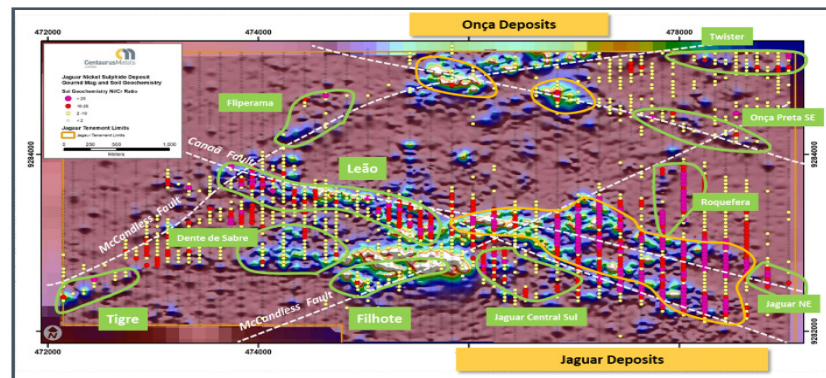
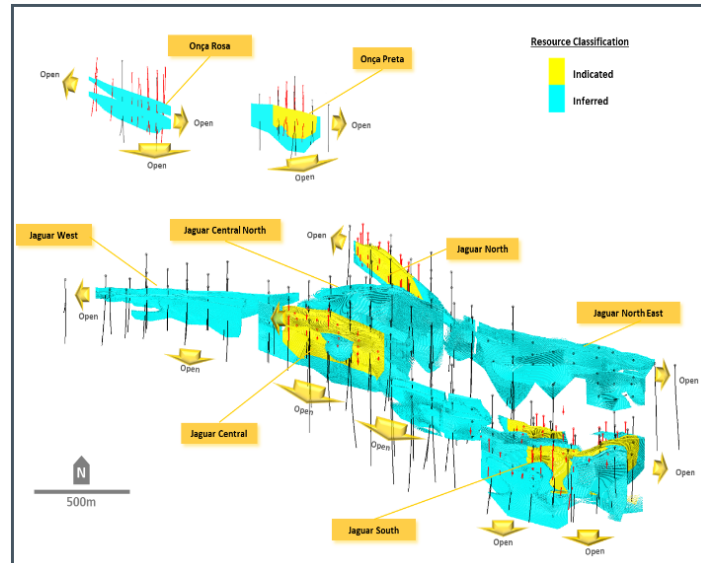
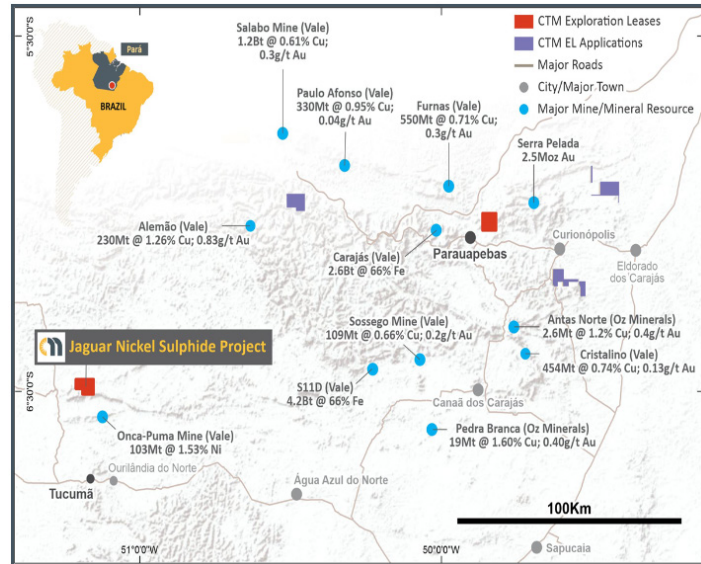
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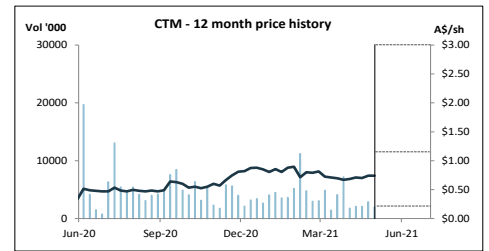


Key Variables

EHLForecast	FY'19a	FY'20	FY'21	FY'22	FY'23	FY'24
AUDUSD		\$0.75	\$0.75	\$0.75	\$0.74	\$0.74
Gold US\$/oz		\$8	\$9	\$9	\$8	\$8



Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$1.09/sh

Price Target - \$1.15/sh

Bull Scenario - \$3.00/sh

CTM continues to build mineral resource inventories at Jaguar, expanding and or extending the potential development of the asset. Rising nickel prices continue to provide a supportive back drop. The Project is successfully banked and commissioned in due course and the Jambreiro Fe ore asset realises value.

Base Scenario - \$1.15/sh

CTM successful banks and develops a Ni sulphide operation at Jaguar, broadly in-line with our preliminary economic assumptions.

Bear Scenario - \$0.20/sh

Nickel prices fall to prices seen last decade of around US\$4-5/lb, thereby slowing development progress at Jaguar.

Company Summary

Centaurus Metals Limited engages in the exploration and evaluation of mineral resource properties in Brazil and Australia. The Company's flagship asset is the Jaguar Nickel Sulphide Project located in the Carajás Mineral Province in northern Brazil. CTM is undertaking a major drilling program which culminated in the delivery of an updated Mineral Resource Estimate for the Project in February 2021 of 58.6Mt grading 0.95% Ni for 557,800t of contained nickel.

It also has the development ready, Jambreiro Iron Ore Project (PFS - 1mtpa mining operation).

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The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz Hartleys.

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