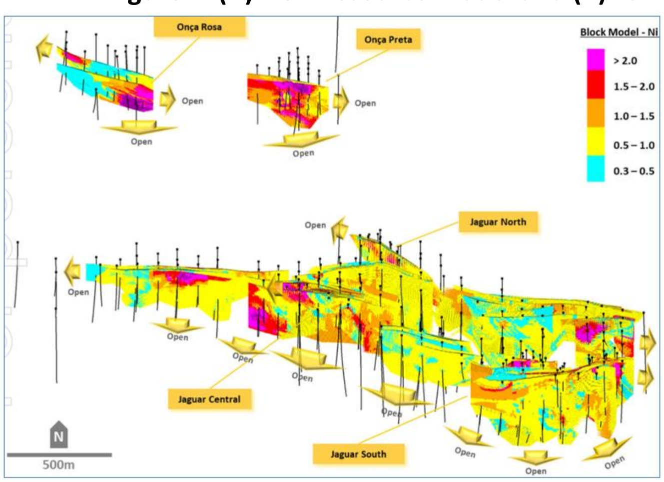
Ticker: CTM AU	**Cash 4Q20:** A$24m	**Project**: Jaguar
Market cap: A$285m	**Price:** A$0.88/sh	**Country:** Brazil
RECOMMENDATION (unc): BUY	*TARGET (up): C$1.05/sh*	*RISK RATING: HIGH*

*Today's lift to 575kt Ni at 1.0% NiEq includes 20Mt @ 1.15% M&I, well over our previously modelled 15Mt open-pit reserve. With a further 39Mt of inferred, we lift our mining inventory to 25Mt, and lift processing from 1.5Mtpa @ 1.5% to 2.5Mtpa @ 1.0%, lowering our strip ratio commensurately. We previously excluded an UG in our valuation, but given CTMs A$24m cash and A$5m of 2Q21 ITM options, plus the M&I now behind them, we expect more aggressive deep drilling this year to build UG resource, hence add a 2.5Mt @ 2.5% Ni UG, although we don't expect this in the upcoming PEA. We lift our nickel price assumption from US$14kt to US$16kt as marginal DSO supply for nickel pig iron (NPI) comes under supply- and demand-pressure as SE Asian countries restrict export in favour of forward integration, and China restricts import in favour of 'cleaner' Ni supplies. In the medium-term we expect EV demand to take over as the key price driver. This lifts our NAV from A$572m to A$735m (A$950m at spot Ni px) as UG additions are offset by a higher AUD and rise in SCPe capex for a larger plant. As such,* ***we maintain our BUY rating but lift our 0.5xNAV$_{7\%-16,000}$ PT*** *from A$0.90/sh to A$1.05/sh. In this scenario we estimate Centaurus is trading at spot 0.34xNAV$_{7\%-\underline{17.6k}}$ or 1xNAV$_{\underline{26\%}-17.6k}$. We think that the 1Q21 scoping study, followed by aggressive greenfield and depth drilling, permitting, engineering studies and nickel pricing should all support continued share-price momentum this year, with optionality on a larger POX operation as well. As one of the very few pittable nickel sulphide assets globally, we see a scarcity / M&A premium as very much warranted, underpinning our conviction on this name.*

Resource lifts 8% to 575kt Ni, PT lifted to A$1.05/sh on enlarged production as Ni price surges

Resource: ahead of a scoping study scheduled for completion this quarter, the MRE released today sees contained nickel lift from 533kt to 577kt NiEq, with grade moving from 1.1% to 1.0% as the cut-off was dropped from 0.5% to 0.3% (~US$50/t in-situ), 80% of which lies within 200m of surface. At a 1% cut-off, the grade stayed at 1.6% with 316kt of Ni metal. The M&I resource, to be used to cornerstone the PEA, lifted from 149kt @ 1.3% NiEq to 223kt @ 1.1%. Four diamond rigs are now undertaking infill and extensional drilling, including on deeper high-grade UG targets. The upcoming scoping study will show a flotation-only base case scheduled for completion in early March. Thereafter, a discrete study scheduled for late March will look at the potential for POX to lift payability to 100%. With structural advantages of 10c hydro power, local acid-neutralising material and ample fresh water, all absent in Australian peers and hence lack of POX there. Greenfield drilling will now target EM anomalies on the Filhote, Leao and Tigre targets.

Figure 1. (A) New resource model and (B) JORC resource compared to 2Q20 resource



	Old	New	Δ (%)
Tonnes (000t)	48.00	58.60	22%
Grade (% NiEq)	1.11%	0.98%	-12%
Ni metal (000t)	**533**	**575**	**8%**
Indicated (% total)	29%	40%	39%
Indicated (% Ni)	1.3%	1.2%	-13%
Tonnes added (000t)	*7.60*	*10.60*	*39%*
Grade of new tonnes (% NiEq)	*2.66%*	*0.39%*	*-85%*
High grade tonnes (000t)	20.60	19.70	-4%
High-grade (% NiEq)	1.60%	1.60%	0%
Ni metal (000t)	**331**	**316**	**-4%**

Source: SCP, high-grade resource at 1% cut-off

Source: Centaurus Metals

Our view

Today's resource upgrade underpins our prior view that our 15Mt / 1.5Mtpa operation would be beaten. The 20Mt @ 1.12% NiEq M&I underpins precisely this, and our expanded 25Mtpa mining scenario discussed below. Coming less than 9M after the maiden resource is a testament to the speed the company is moving at. However, that speed also talks to future upside, with Onca Rosa and Onca Preta in particular wide open at depth on high-grade shoots that should support an UG (Figure 1A). As reflected in the largely unchanged high-grade resource, Centaurus hasn't had to time to do deeper drilling as M&I drilling to support the upcoming scoping study was the priority. We expect drilling of deeper ore zones to support the share price this year, and value the UG opportunity in more detail below. The key change in resource was a drop in cut off from 0.5% to 0.3%, which at ~US$50/t in-situ (0.9g/t AuEq for the gold bugs, or 0.6g/t payable recoverable) very much falls into the pittable category in our view.

Lifting SCPe ROM rate ahead of maiden scoping study, maintain BUY

<u>Prior model:</u> Our prior A$569m NAV was based on a 1.5Mtpa @ 1.5% pit-only scenario producing 18ktpa Ni in concentrate from a 15Mt reserve, adding 4% EV/insitu (~US$600/t Ni metal) for resources outside reserves to capture value for the underground. After today's resource update, this reserve is clearly too small, and so we lift our mining scenario. <u>Expanded scenario:</u> The M&I 20Mt @ 1.15% NiEq (97% Ni, small Cu/Co credits) represents not just the best-drilled areas, but closest to surface as Centaurus progressively drills deeper. We expect conversion of all the M&I, and perhaps some inferred for the scoping study, so lift our mining inventory from 15Mt @ 1.5% at a high 8:1 strip to 25Mt @ 1.0% Ni, lifting our mill throughput from previous 1.5Mtpa to 2.5Mtpa at a lower 6:1 strip. Capex will rise so we lift our estimate from US$160m to US$200m. Similarly, we drop recovery from 80% to 78% in reflection of a fixed-tail given our lower forecast ROM grade. In reflection of drilling high-grade near surface zones, particularly at Jaguar South, we also move from a flat-forward grade to add two years at 1.2% from a starter pit.

Valuation: NAV flat on higher throughput at lower grade, lifts with addition of UG

Our prior $NPV_{7\%\text{-}14,000}$ lifts from A$498m to A$502m with a fall from a stronger AUD, higher capex and lower grade and recovery, offset by a gain in larger throughput, a two-year starter pit, lower strip and stronger nickel prices. We previously excluded an underground, but now add a 2.5Mt @ 2.5% reserve from year three. We don't expect this to be included in the upcoming scoping study given limited deeper drilling means an UG at this stage would incur all the capex for a small amount of eventual reserve. However, deeper drilling is a core driver for CTM this year hence our addition of this into our model. Adding cash and cash from ITM options takes our NAV to A$735m.

Table 1. Old and new model assumptions and NPV for Jaguar

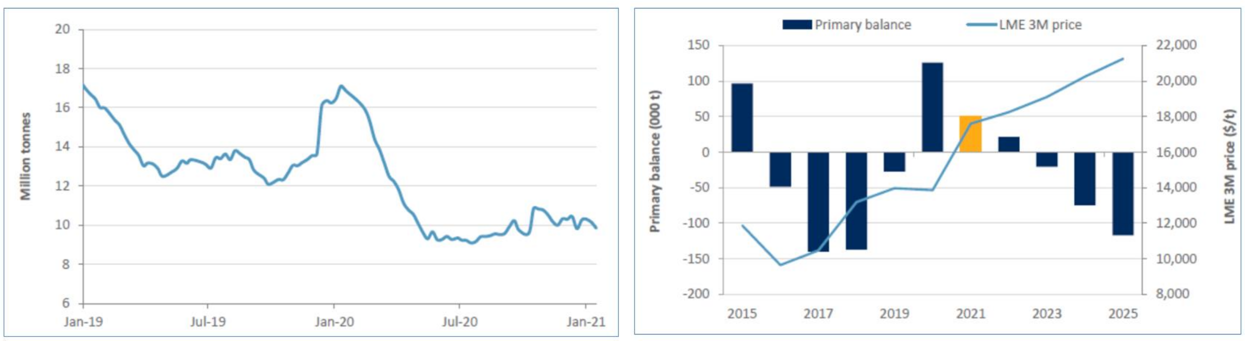
	SCP			SCP	
Jaguar (100%)	**Old**	**New**	**Jaguar (100%)**	**Old**	**New**
Pit inventory (Mt ore)	15.0	25.0	Pit mining cost (US$/t ROM)	2.5	2.5
Grade (% Ni)	1.50%	1.00%	Processing cost (US$/t ROM)	20.0	20.0
UG inventory (Mt ore)	-	2,500.0	G&A cost (US$/t ROM)	2.50	2.50
Grade (% Ni)	-	2.8%	Transport to China (US$/t con)	195	195
Nickel mined (000t Ni)	225	319	C1 cost (US$/lb, LOM average)	7,738	8,760
LOM average ROM (000t pa)	1463	2444	AISC (US$/lb, LOM average)	7,988	9,307
Recovery (LOM, %)	80%	78%	Initial capex (US$m)	254	293
Production (avg, 000t Ni in con pa)	17.6	22.1	LOM sustaining capex (US$m)	45.07	136.00
Mine life (years)	10.3	11.3	Discount rate (%)	7.0%	7.0%
Nickel price (US$000/t)	14,000	16,000	Project NPV (A$m)	**498**	**705**
Payability (%)	75.0%	75.0%	Asset IRR (%)	35%	40%

Source: SCP estimates

Nickel price benefits from ESG agenda, not just via EVs either

The ESG agenda, specifically EVs, is driving equity prices. We think EV demand longer-dated, ramping up toward the mid- to late-2020s with only ~60kt of nickel used in EVs in 2019. Specifically, BHP notes that the move from MMC111 to NMC811 to improve battery range doubles nickel in each cell, offset by increasing LFP (Lithium Iron Phosphate) penetration with an ~18kt pa drop in demand by 2025 for each 10% market share LFP takes. However, we think investors may have missed a second subtlety of the ESG agenda relating to nickel. Nickel pig iron (NPI), where DSO laterite from Asia is used to increase Ni content of steel, previously presented marginal supply above ~US$14,000/t incentive price, e.g. Indonesia exported 350kt of nickel to China (40% of its imports) in CY19. This 'cheap and dirty' nickel supply has the double impact of higher downstream emissions than high-grade sulphide concentrate, and the inability to supply into the EV market which prefers concentrate to produce hydroxide rather than DSO into steel. Where this relates to the nickel price is that demand is reducing for NPI as China increases pressure on steel producers to 'clean up'. At the same time, supply is reducing as Indonesia variably halts exports to promote in-country forward integration to capture some of the EV supply-chain themselves. This leaves solid short- and medium-term price drivers in our view, a perfect storm for nickel investors.

Figure 2. (A) China nickel port inventory down on Indonesia export ban, (B) forecast deficit



Source: S&P, Jan 21 2020

Recommendation: maintain BUY rating, lift PT from A$0.90/sh to A$1.05/sh

We add cash and cash from ITM options, and dilute for options but not mine-build. Discounting to build start at 7% and US$16,000/t Ni drives our A$735m NAV. We apply a 0.5xNAV to reflect uncertainty pre-scoping study, offset by geological upside and strong scaricity and associated M&A premium. As such, we **maintain our BUY rating, and lift our PT from A$0.90/sh to A$1.05/sh**. Key price drivers going forward are an increased NAV multiple as the project is derisked, UG resource additions from this years drilling, and regional upside on greenfield targets. In the short term, we see our mining and processing costs of US$2.50/t and US$20/t, respectively, and US$200m capex, as numbers to be beaten, along with optimisation of the mining schedule to further front-load grade and production.

Table 2. SOPT valuation for Centaurus

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Ni price (US$/t)	16,000	16,000	16,000	16,000	16,000
Ni price (US$/t, payable)	12,000	12,000	12,000	12,000	12,000
1xNAV project valuation*		**A$m**	**o/ship**	**NAVx**	**A$/sh**
Jaguar NPV (build start)		502	100%	0.50x	0.68
UG		203	100%	0.50x	0.28
Cash 4Q20		24.1	100%	1.0x	0.07
Cash from ITM options		6.0	100%	1.0x	0.02
1XNAV A$ @ 1Q21		A$735m			1.04
**Build start, ex fin. cost + G&A, dil. for optns not build*			*P/NAV today:*		0.44x

Asset value: 1xNPV *project* @ build start (A$m, ungeared)*					
Asset NPV (A$m)	12,000	14,000	16,000	18,000	20,000
9.0% discount	146	395	644	892	1,141
7.0% discount	187	461	735	1,009	1,282
5.0% discount	235	538	841	1,144	1,447
Ungeared project IRR:	15%	28%	40%	50%	60%
Asset NPV @ 1.0% (A$m)	15.0Mt	20.0Mt	25.0Mt	30.0Mt	35.0Mt
US$14,000/t	232	347	461	572	689
US$16,000/t	416	576	735	890	1,052
US$18,000/t	601	805	1,009	1,207	1,414
Avg production (Kt Ni pa):	*15.2*	*19.2*	*23.1*	*27.1*	*31.0*

Source: SCP estimates

Why we like Centaurus Metals

1. Metal in the ground dwarfs peers, with potential for open pit and underground
2. Good logistics including rail in a well-known mining jurisdiction
3. Potential for UG additions to improve NPV after CY21 drilling
4. FLEM targeting means strong resource growth per metre drilled
5. Quality 16% concentrate with low As, low Mg

Catalysts

1. 1Q21: Scoping study covering floatation case-case
2. 1Q21: Discrete POX-scenario scoping study
3. 2021: Results from four rigs currently drilling
4. 2Q21: Lodge environmental license

Research

Brock Salier (London) M: +44 7400 666 913 bsalier@sprott.com
Justin Chan (London) M: +44 7554 784 688 jchan@sprott.com
Brandon Gaspar (Toronto) M: +1 204 541 1144 bgaspar@sprott.com

Ticker: CTM AU	**Price / mkt cap:**	A88c/sh / A$285m	**P/NAV today:**	0.44x	**Country:**	Brazil
Author: B Salier	**Rec/0.5xNAV7% PT:**	BUY, A105c/sh	**1xNAV7%4$_{Q21}$ FF FD:**	A$1.56c/sh	**Asset:**	Jaguar

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Ni price (US$/t)	16,000	16,000	16,000	16,000	16,000
Ni price (US$/t, payable)	12,000	12,000	12,000	12,000	12,000

1xNAV project valuation*	A$m	o/ship	NAVx	A$/sh
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*Build start, ex fin. cost + G&A, dil. for optns not build			*P/NAV today:*	0.44x

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US$16,000/t	416	576	735	890	1,052
US$18,000/t	601	805	1,009	1,207	1,414
Avg production (Kt Ni pa):	*15.2*	*19.2*	*23.1*	*27.1*	*31.0*
Asset NPV @ 25Mt (A$m)	0.80%	0.90%	1.00%	1.10%	1.20%
US$14,000/t	33	131	228	325	423
US$16,000/t	275	388	502	615	728
US$18,000/t	517	646	775	904	1,033
Avg production (Kt Ni pa):	*29.5*	*32.7*	*35.9*	*39.1*	*42.2*

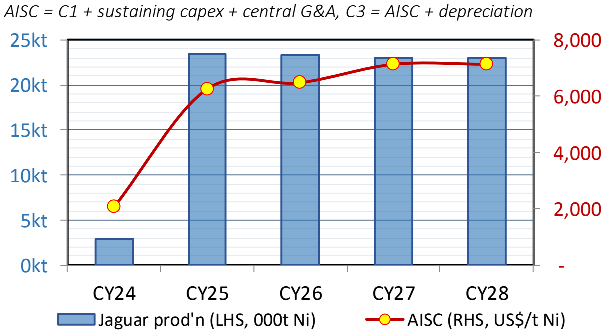
**Project level NPV, excl finance costs and central SGA, discounted to build start*

SOTP *company* valuation	1Q21	1Q22	1Q23	1Q24	1Q25
Jaguar NPV	598	640	690	888	1,088
Centra G&A and finace cost	(55)	(49)	(46)	(44)	(30)
Net cash prior quarter	24.1	15.3	8.8	4	(145)
Cash from ITM options	6.0	6.0	6.0	6.0	6.0
NAV (A$m)	573	612	659	855	919
FD share count (m)	*366*	*366*	*475*	*475*	*475*
1xNAV7%/sh FF FD (A$/sh)	1.56	1.67	1.39	1.80	1.93
ROI (% pa)		91%	26%	27%	22%

Exit value: 1xNAV/sh *company* @ 2024 first production (A$, geared)^					
1xNAV (A$/sh)	12,000	14,000	16,000	18,000	20,000
9.0% discount	0.58	1.18	1.78	2.39	2.99
7.0% discount	0.64	1.29	1.93	2.58	3.22
5.0% discount	0.72	1.42	2.11	2.80	3.49

Production (Y1 from 3Q2	CY24	CY25	CY26	CY27	CY28
Jaguar production (000kt Ni	2.9	23.4	23.3	23.0	23.0
C1 cost (US$/t Ni)	1,990	6,092	6,223	6,615	6,615
AISC cost (US$/t Ni)	2,076	6,263	6,481	7,136	7,136

AISC = C1 + sustaining capex + central G&A, C3 = AISC + depreciation



Resource/Inventory	Mt	Ni %		Mt	Ni %
	2Q20 JORC			SCP inventroy	
M&I	11.5	1.29%		25.0	1.00%
Inferred	36.4	1.01%			
Total	48.0	1.08%	Total	25.0	1.0%

Funding: uses		Funding: sources	
Capex (A$m)	267	Cash 2Q20 (A$m)	24.1
Drilling/FS cost (A$m)	14.5	SCPe debt (A$m)	160.0
Working capital (A$m)	-	SCPe DFS funds @ spot (A$m)	24.5
G&A and fin. cost (A$m)	12.0	SCPe equity, 40% prem. (A$m)	133.3
Total uses: group (A$m)	293.1	Total sources (A$m)	342.0

Share data (m)	Basic	FD	3Q22 (FF FD)
Shares (m)	326.0	366.4	475.2

Ratio analysis	CY20E	CY21E	CY22E	CY23E	CY24E
Shares out (m)	325.9	325.9	475.2	475.2	475.2
EPS (Ac/sh)	-	-	-	-	-
CFPS before w/c (A$/sh)	-	-	-	-	-
EV (A$m)	261.0	269.8	407.1	411.6	561.1
FCF yield (%)	-	-	-	-	-
PER (x)	-	-	-	-	-
P/CF (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	38.3x

Income statement	CY20E	CY21E	CY22E	CY23E	CY24E
Revenue (A$m)	-	-	-	-	46.8
COGS (A$m)	-	-	-	-	31.1
Gross profit (A$m)	**-**	**-**	**-**	**-**	**15.7**
G&A (A$m)	1.7	2.8	3.6	4.3	1.0
Exploration (A$m)	6.9	6.0	3.0	-	-
Finance costs (A$m)	-	-	-	-	14.0
Tax (A$m)	-	-	-	-	1.3
Other (A$m)	0.3	0.4	0.4	0.4	3.3
Net income (A$m)	**(8.8)**	**(9.2)**	**(7.0)**	**(4.7)**	**(3.8)**

Cash flow statement	CY20E	CY21E	CY22E	CY23E	CY24E
EBITDA (A$m)	(8.9)	(9.2)	(7.0)	(4.7)	14.6
Add share based (A$m)	0.3	0.4	0.4	0.4	0.1
Net change wkg cap (A$n	-	-	-	0.3	14.2
Cash flow ops (A$m)	**(8.5)**	**(8.8)**	**(6.6)**	**(4.6)**	**(14.8)**
PP&E - build + sust. (A$m	0.5	-	-	133.3	134.7
PP&E - expl'n (A$m)	-	-	-	-	-
Cash flow inv. (A$m)	**(0.7)**	**-**	**-**	**(133.3)**	**(134.7)**
Share issue (A$m)	24.8	-	-	133.3	-
Debt draw (repay) (A$m)	-	-	-	-	160.0
Cash flow fin. (A$m)	**24.8**	**-**	**-**	**133.3**	**160.0**
Net change in cash (A$m)	14.4	(8.8)	(6.6)	(4.6)	10.6

Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (A$m)	24.1	15.3	8.8	4.2	14.8
Acc rec. + invet. (A$m)	0.3	0.3	0.3	0.1	24.5
PP&E & expl'n (A$m)	4.7	4.7	4.7	138.1	269.6
Total assets (A$m)	**29.2**	**20.3**	**13.8**	**142.3**	**308.8**
Debt (A$m)	-	-	-	-	160.0
Accounts payable (A$m)	0.6	0.6	0.6	-	10.2
Others (A$m)	24.4	15.6	9.0	4.2	39.2
Total liabilities (A$m)	**1.1**	**1.1**	**1.1**	**0.5**	**170.7**
Shareholders' equity (A$n	153.7	154.1	154.5	288.2	288.3
Reserves (A$m)	(6.6)	(6.6)	(6.6)	(6.6)	(6.6)
Retained earnings (A$m)	(119.0)	(128.2)	(135.2)	(139.8)	(143.6)
Liabilities + equity (A$r	**29.2**	**20.3**	**13.8**	**142.3**	**308.8**

Source: SCP estimates

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NEUTRAL: The stock's total returns are expected to be in line with the overall market

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TENDER: The analyst recommends tendering shares to a formal tender offering

UNDER REVIEW: The stock will be placed under review when there is a significant material event with further information pending; and/or when the research analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

NOT RATED ((N/R): The stock is not currently rated

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Summary of Recommendations as of February 2021	
BUY:	33
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	33

[1] As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month