

Centaurus Metals Ltd

(CTM \$0.87) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Jon Bishop	27 th July 2021	\$1.40/sh ▲ from \$1.15/sh

Jun Q'ly FY'21 Report: POX the Preferred Route & Jambreiro to Realise Value?

Event

CTM Jun Q'ly Report summarised an active period for CTM, inc key appointments to focus on development (Wayne Foote) freeing Roger Fitzhardinge to focus on exploration

Following the release of the Value-Add Scoping Study in May, the POX processing route remains the primary focus of the mid'FY23 DFS

On-going drilling (2021: 40km DD Resource ext. and infill; 25km RC/DD Regional exploration) has continued to build the Resource framework (conversion to Indicated & depth extension) to support the +13yr POX development

CTM is looking to realise Jambreiro Fe Project value via: offtake; financing; and development/JV through innovative non-dilutive funding and/or partnering options

Impact

We have upgraded Valuation to \$1.43/sh (from \$1.09/sh) accounting for a blend of the Base Case and POX flow sheets risked adj by 50%

We also inc. a nominal \$50m (13cps) value for the Jambreiro Fe Project for the first time noting the spot NPV8 under the existing PFS of \$650m

This Project represents a substantial potential funding solution for Jaguar or at least material latent realisable value within the CTM portfolio

We set a revised \$1.40/sh Price Target (prev. \$1.15/sh) Price Target.

Action

We maintain our Speculative Buy recommendation

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 (Mid FY'22) – Inferred conversion & grade;
- Resource Update (Dec H FY'23) – Inferred conversion & grade;
- DFS (Mid FY'23);
- Nickel price and Resource sector macro.

Centaurus Metals Ltd	Year End 30 June	
Share Price	\$0.87	A\$/sh
Issued Capital		
Fully Paid Ordinary	343.7	m
Listed Opts (ex @ \$0.18/sh May'21)	-	m
Unlisted Options	12.1	m
Total Dil FP Ord	355.79	m
Market Capitalisation	309.5	A\$m
Enterprise Value	289.2	A\$m
Cash (est Jun 21)	20.4	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

Substantial Shareholders

Top 20	59%
Dir & Mgt	4%

Company Details

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Share Price Chart



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Analysis

Following the release of the Value-Add Scoping Study in May, the POX processing route remains the primary focus of the mid'FY23 DFS.

To that end, CTM has made key appointments to focus on development (Wayne Foote) freeing Roger Fitzhardinge to focus on exploration.

We summarise our analysis of both the Base Scoping and POX Value-Add Studies 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
<i>EH Val NPV10 unrisked</i>	<i>A\$m</i>	<i>367</i>	<i>367</i>	<i>511</i>
Valuation	A\$m		436	

*NB: NPV8

Recent drilling results have continued improve confidence to support the 33.7mT of Ni ore contemplated under the POX both in terms of Resource classification but also strike and UG extension.

In general, the POX study highlighted an overall 84% inc. to post tax NPV8 to A\$1.1Bn with higher opex and capex offset by longer mine life and payabilities (plus sulphate premia).

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:

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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

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

The processing flow sheet improves tolerance to lower grade feed.

It also benefits from in-country advantages of cheaper labour and low cost, hydro-electricity.

A risked blend of the two studies form the basis of our revised \$436m Jaguar Valuation.

We also note commentary regarding the Jambreiro Fe Ore Project. The PFS was first released in July 2019 and updated in the Jun Qly 2020.

Project economics on an assumed US\$75/t (62% Fe CFR China) delivered a post NPV8 of \$147m and 37% IRR from 18yr operation.

The current Fe price environment has elicited 3rd interest and prompted the Company to renew all environmental licences and Jambreiro Installation Licence.

We note recent Fe pricing forex would see project economics yield IRRs of over 150% and NPVs over A\$600m after tax.

Consequently, CTM is looking to realise Jambreiro Fe Project value via: offtake; financing; and development/JV through innovative non-dilutive funding and/or partnering options.

We inc a nominal \$50m value for Jambreiro for the first time.

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Key Variables

EHLForecast	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

ASSET VALUATION			
Valuation	A\$m	A\$/sh.	
(+) Jaguar Ni Base (50% risk adj.)	436	\$1.23	
(+) Jambreiro (risk adj)	50	\$0.14	
(-) Corporate	-32	-\$0.09	
(+) Exploration	50	\$0.14	
(-) Debt	0	\$-	
(+) Unpaid Capital	2	\$0.01	
(+) Cash	20	\$0.06	
Valuation	526	\$1.51	

Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$1.43/sh

Price Target - \$1.40/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 backdrop. The Project is successfully banked and commissioned in due course and the Jambreiro Fe ore asset realises value.

Base Scenario - \$1.40/sh

CTM successfully banks and develops a Ni sulphide operation at Jaguar, broadly in-line with our preliminary economic assumptions. The Jambreiro Fe Project realises a portion of its potential NPV8 post tax PFS Value.

Bear Scenario - \$0.20/sh

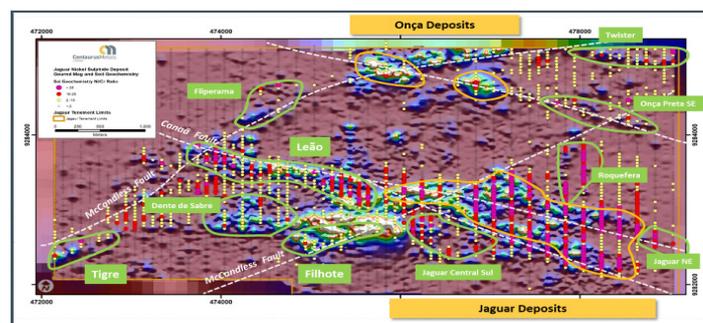
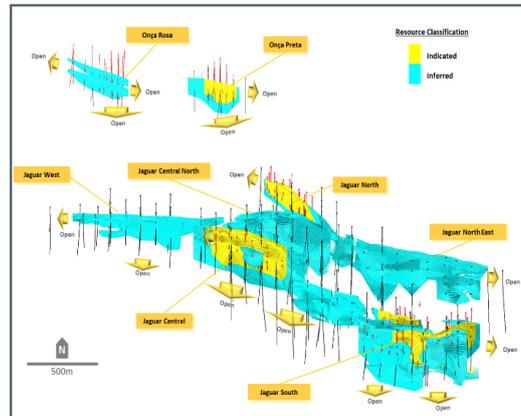
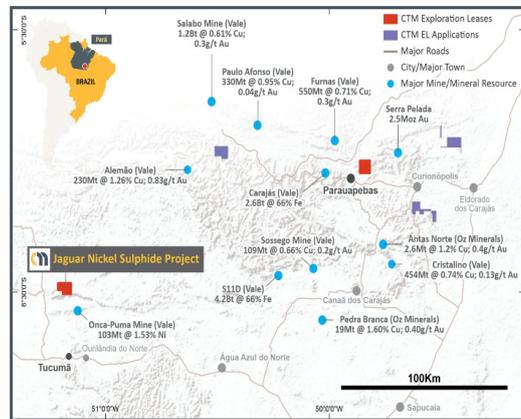
Nickel prices fall to prices seen last decade of around US\$4-5/lb, thereby slowing development progress at Jaguar.

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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