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Aeon Metals Ltd (AML)

PFS pushed back

Recommendation

Buy (unchanged)

Price

\$0.13

Valuation

\$0.56 (previously \$0.60)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	331%
Dividend yield	0%
Total expected return	331%

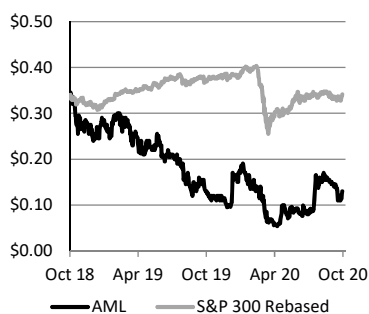
Company Data & Ratios

Enterprise value	\$108.3m
Market cap	\$88.1m
Issued capital	677.6m
Free float	55%
Avg. daily val. (52wk)	\$59,200
12 month price range	\$0.054-\$0.225

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.15	0.09	0.14
Absolute (%)	-13.3	52.9	-7.1
Rel market (%)	-12.2	52.5	-0.3

Absolute Price



SOURCE: IRESS

Pre-Feasibility Study update

AML provided an update on the progress of the Walford Creek Pre-Feasibility Study (PFS) which stated that, due to proposed changes to its cobalt processing flowsheet, a new round of metallurgical testwork would be required. This will take time and result in the completion of the PFS being pushed back to 1QCY21. Other key aspects of the PFS are near completion, including mine planning and design, engineering studies and design of the front-end process flowsheet. The PFS will also include a maiden Ore Reserve Estimate, based upon the Mineral Resource released in December 2019.

While it is disappointing that the PFS, a key de-risking milestone for the project, has been delayed we view it as a pragmatic and correct outcome. Following the completion of metallurgical testwork that indicated capital and operating costs for the agitated bioleaching of the cobalt would be significantly higher than expected, AML needs to assess alternatives that can maximise profit margins for the project. AML is now examining options such as heap leaching and vat leaching that would have both lower capital and operating costs.

Regional greenfield drilling to commence

Emerging as a potential near-term positive catalyst is the commencement of a new regional greenfield drilling program at two targets to the west of Mt Isa. Any exploration success at these, in our view, would be well received in the current market and could be quite material to AML. The first of these is the Beauchamps Iron Oxide Copper Gold (IOCG) target into which an 800m diamond drill hole is planned and the second is the Sugarbag anomaly, a sediment hosted base metals target identified from the re-processing of historic, large-scale airborne electro-magnetic data.

Investment thesis – Speculative Buy, valuation \$0.56/sh

With the delay to the PFS we also lower our notional valuation for AML's exploration upside at Walford Creek and include the increased debt resulting in a 7% reduction in our valuation, to \$0.56/sh. With upside of 331% from the last closing price, we retain our Speculative Buy recommendation.

Earnings Forecast

Year end 30 June	2020a	2021e	2022e	2023e
Sales (A\$m)	0	-	215	467
EBITDA (A\$m)	(5)	(2)	91	197
NPAT (reported) (A\$m)	(5)	(2)	35	70
NPAT (adjusted) (A\$m)	(5)	(2)	35	70
EPS (adjusted) (cps)	(1)	(0)	5	10
EPS growth (%)	na	na	na	103%
PER (x)	(16.3)	(35.5)	2.5	1.3
FCF Yield (%)	-10%	-80%	-194%	202%
EV/EBITDA (x)	(19.9)	(72.2)	1.2	0.5
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-8%	-4%	44%	54%

SOURCE: BELL POTTER SECURITIES ESTIMATES

PFS pushed back

Pre-Feasibility Study update

AML provided an update on the progress of the Walford Creek Pre-Feasibility Study (PFS) which stated that, due to proposed changes to its cobalt processing flowsheet, a new round of metallurgical testwork would be required. This will take time and result in the completion of the PFS being pushed back to 1QCY21.

Other key aspects of the PFS are near completion, including mine planning and design, engineering studies related to logistics, site layout, water supply and design of the front-end process flowsheet for the production of copper, lead and zinc concentrates. The PFS will also include a maiden Ore Reserve Estimate, based upon the Mineral Resource released in December 2019.

Further work has also been undertaken on Flora and Fauna surveys to establish additional baseline data across areas of the extended Resource and areas identified for the siting of mine infrastructure. This and other work programs for the Environmental Impact Statement (EIS) is expected to be completed following the PFS.

While it is disappointing that the PFS, a key de-risking milestone for the project, has been delayed we view it as a pragmatic and correct outcome. Following the completion of metallurgical testwork that indicated capital and operating costs for the agitated bioleaching of the cobalt would be significantly higher than expected, AML needs to assess alternatives that can maximise profit margins for the project. Specifically, the cooling requirements for the agitated leach circuit were found to be too energy intensive (expensive).

AML is now examining options such as heap leaching and vat leaching that would have both lower capital and operating costs to recover cobalt from the back end of the process route. This would result in lower overall cobalt recoveries, but should result in higher profit margins.

Regional greenfields drilling to commence

Emerging as a potential near-term positive catalyst is the commencement of a new regional greenfield drilling program at two targets to the west of Mt Isa. Any exploration success at these, in our view, would be well received in the current market.

The first of these is the Beauchamps Iron Oxide Copper Gold (IOCG) target. It is a deep target and the planned 800m diamond drill hole (off an RC collar) has been partially funded with a \$200,000 grant via the Collaborative Exploration Initiative (CEI). IOCG style deposits can be large-scale and high value, with examples including BHP's Olympic Dam, Glencore's Ernest Henry and OZ Minerals' Carrapateena projects.

The second target is the Sugarbag anomaly, identified from the re-processing of historic, large-scale airborne electro-magnetic data. AML has applied for tenements over the Sugarbag target ahead of drill-testing. It is a sediment hosted base metals target with a similar setting to the Century and Kupferscheifer deposits for which, again, exploration success could be quite material to AML.

FY20 financial statements

AML has also released its FY20 financial results, reporting a \$5.4m loss (vs BPe \$3.3m), with the main differences being a \$3.2m impairment to exploration assets other than Walford Creek held by AML. This was partially offset by lower-than-forecast administration costs.

The other key metric is AML's net cash (debt) position which at 30 June stood at net debt of \$16.6m. This has since been superseded with the additional \$3m drawdown from the OCP facility, which now stands at \$22.6m (including capitalised interest) for an estimated net debt position of \$20.2m. The facility matures on 17 December 2021.

Changes to our valuation

Following the latest updates from the company we have made the following changes to our AML valuation:

- Pushed back our assumption for first production by ~12 months to FY23 reflecting the delay to the completion of the Feasibility Study, however our production, cost and other key operational assumptions remain unchanged;
- Updated for the latest capital structure and financial position following the latest extension of the OCP debt facility and the release of the FY20 accounts;
- Lowered our notional exploration valuation from \$150m to \$120m, reflecting the lack of near-term drilling catalysts at Walford Creek, partially offset by the potential for positive catalysts at the Beauchamps and Sugarbag targets, to be drilled in the near-term;
- Updated our standard assumption for exploration companies for an equity raise within the next 12 months, in this case \$6.0m at \$0.12/sh (~5% discount to the last closing price); and
- Rolled our model forward.

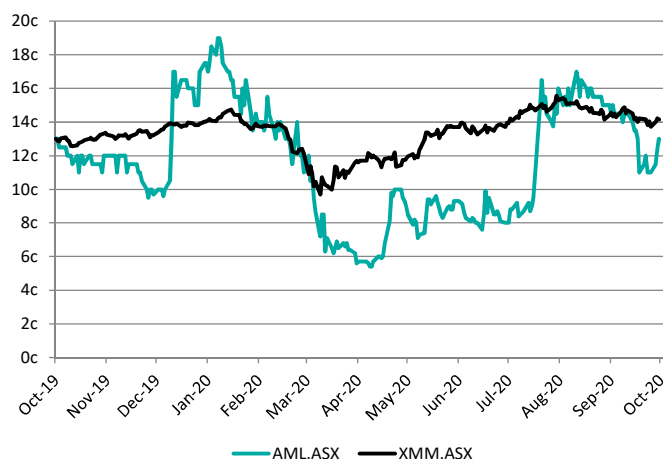
The net impact is a 7% reduction in our valuation, from \$0.60/sh to \$0.56/sh, driven by the lowered exploration valuation and increased debt in the capital structure. With upside of 331% from the last closing price, we retain our Speculative Buy recommendation.

Upcoming catalysts

Key upcoming catalysts for AML include:

- Further updates from the ongoing workstreams (including operational optimisations and environmental baseline studies) that will form the basis of a PFS, now targeted for completion in 1QCY21. In particular, we will be awaiting the results of the fresh round of cobalt metallurgical testwork and updates to the cobalt flowsheet;
- The results from regional greenfield drilling programs at the Beauchamps IOCG and Sugarbag sedimentary targets, planned to commence in the coming weeks; and
- Updates on potential funding options being considered by AML, including debt and equity finance, metal streaming deals and strategic equity deals at the project and company levels.

Figure 1 - AML share-price performance vs ASX Metals and Mining (re-based)



SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

Aeon Metals Ltd (AML)

Company description

AML is focused on the exploration and development of its flagship asset, the 100%-owned Walford Creek Copper-Cobalt Project, an advanced exploration stage project located approximately 350km north west of Mt Isa, in Queensland. Since acquiring the project in 2014, AML has completed Resource infill and extension drilling, released updated Mineral Resource estimates, progressed permitting activities and completed initial project evaluations. In mid-2017 a new understanding of the deposit resulted in the development of a geological model which was subsequently used to target high grade extensions of the Vardy Zone. Drilling programs over the course of 2018 and 2019 have now defined a Copper Lode Resource of 18.4Mt @ 1.05%Cu + 0.14%Co + 29g/tAg + 0.90%Pb + 0.72%Zn, containing 194kt copper and 26kt cobalt, plus lead, zinc and silver. It also defined a Cobalt Peripheral Resource of 17.4Mt @ 0.26%Cu + 0.09%Co + 20g/tAg + 0.80%Pb + 1.01%Zn, containing 45kt copper and 16kt cobalt, plus lead, zinc and silver. The updated Amy Copper Mineral Resource stands at 5.1Mt @ 1.25%Cu + 0.14%Co + 37g/tAg + 1.35%Pb + 0.63%Zn, containing 32kt copper and 21kt cobalt, plus lead, zinc and silver. These Resources will form the basis of a PFS to be released in 1QCY21.

Investment thesis – Speculative Buy, valuation \$0.56/sh

With the delay to the PFS we also lower our notional valuation for AML's exploration upside at Walford Creek and include the increased debt resulting in a 7% reduction in our valuation, to \$0.56/sh. With upside of 331% from the last closing price, we retain our Speculative Buy recommendation.

Valuation – risked discounted cash flow of key project

Our valuation for AML is based on the October 2019 Scoping Study which outlines a scenario for the open-pit and underground mining of the Walford Creek project. This assumes a Mining Inventory of 35.5Mt @ 0.45% Cu, 0.78% Pb, 0.88% Zn, 24g/t Ag and 852ppm Co being mined and processed at a combined rate of 3.5Mtpa over an 11-year mine-life. Processing via a 2.0Mtpa concentrator and 1.5Mtpa heap leach is planned to produce 145.8kt Cu and 22.5kt Co over the lom, plus zinc, lead nickel and silver. We also include an exploration valuation of \$120m to reflect the potential Resource upside and strategic value of the 20km strike length of the Fish River Fault across AML's tenements, as well as the opportunity of the near-term regional drill programs set to commence at Beauchamps and Sugarbags.

Resource sector risks

Risks to AML include, but are not limited to:

- **Funding and capital management risks:** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Operating and development risks:** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Operating and capital cost fluctuations:** The cost and availability of exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations:** The future earnings and valuations of exploration, development and producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. NIC's assets are located in Sulawesi, Indonesia, which has in the past implemented regulatory changes related to mining project ownership, fiscal terms and mineral export requirements.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating. NIC's assets are in Indonesia, a G20 country with one of the largest economies in SE Asia. Its sovereign debt is rated investment grade by the major ratings agencies.
- **Corporate/M&A risks:** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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