BELL POTTER

Speculative

See key risks on page 6, and early stage company risk warning on page 9.
Speculative securities may not be suitable for Retail clients.

14 November 2022

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Authorisation
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Alpha HPA Ltd (A4N)

Orica 5% placement; North America MoU

Recommendation
Buy (unchanged)
Price
$0.575
Valuation
$1.02 (previously $0.95)
Risk
Speculative

GICS Sector

Materials

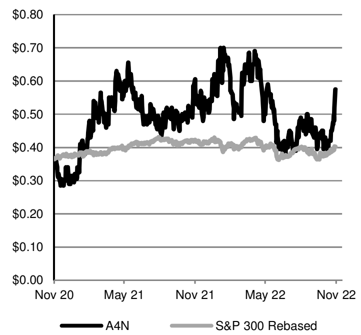
Expected Return	
Capital growth	77%
Dividend yield	0%
Total expected return	77%

Company Data & Ratios	
Enterprise value	$465m
Market cap	$493m
Issued capital	857m
Free float	85%
Avg. daily val. (52wk)	$1.0m
12 month price range	$0.37-$0.74

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.43	0.45	0.51
Absolute (%)	35.3	27.8	12.7
Rel market (%)	27.8	26.4	17.2

Absolute Price



SOURCE: IRESS

5% placement to Orica; North American project considered

A4N has announced the expansion of its strategic relationship with Orica Ltd (ASX: ORI, not rated); ORI will acquire a 5% equity interest in A4N and the two parties have signed an Memorandum of Understanding to investigate the feasibility of establishing a new high purity aluminium product manufacturing facility in Canada. ORI will subscribe to 45.0m new A4N shares at $0.44/sh, raising $19.8m. The MoU looks at potentially replicating A4N's Gladstone HPA First Project and associated reagent supply and offtake agreements near ORI's Carseland asset in Alberta.

Major project validation & working capital boost

The equity subscription and MoU highlight ORI's validation of A4N's HPA First process, project and management. ORI has completed extensive due diligence as part of its formal reagent supply and offtake agreements with A4N over several years and the groups are now operating commercially as part of the Stage 1 facility currently in commissioning. Funds from the share subscription will provide A4N with additional working capital for the ramp-up of Stage 1 production. We also expect A4N to soon receive funds from the Federal Government's $15.5m Critical Minerals grant for Stage 1 over the coming quarters. At 30 September 2022, A4N had cash of around $8m.

Investment view: Speculative Buy, Valuation $1.02/sh

A4N's high purity aluminium and high purity alumina (HPA) products have value-adding application across lithium ion battery, micro-LED and semiconductor manufacturing. These technologies are at the forefront of the global decarbonising and reshoring themes. Over the coming quarters, we expect A4N to announce initial product offtake agreements with major battery supply chain and chemical participants in support of debt financing and FID for the full scale HPA First project in Gladstone.

Our valuation now incorporates the ORI share placement. A4N is a development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Earnings Forecast

Year ending 30 June	2022a	2023e	2024e	2025e
Sales (A$m)	2	8	142	353
EBITDA (A$m)	(7)	(4)	85	254
NPAT (reported) (A$m)	(7)	(11)	63	157
NPAT (adjusted) (A$m)	(7)	(11)	63	157
EPS (adjusted) (¢ps)	(0.9)	(1.2)	6.4	16.0
EPS growth (%)	na	na	na	150%
PER (x)	-61.8x	-46.6x	8.9x	3.6x
FCF Yield (%)	-8%	-26%	-24%	18%
EV/EBITDA (x)	-64.8x	-130.8x	5.4x	1.8x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-15%	-10%	30%	49%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Orica 5% placement; North America MoU

Timeline & value catalysts

We expect that A4N will be in a position to make announcements relating to the following value catalysts over the next two quarters:

- Initial sales and cash flow from the Stage 1 PPF as production is ramped up;
- Feasibility level design of a re-configured HPA First Project scope which allows for an updated product mix and volume assumptions as determined by recent marketing;
- Initial commercial HPA offtake agreements with end users;
- Debt financing arranged, conditional upon adequate offtake agreements;
- A4N Board take HPA First Project Final Investment Decision; and
- Commencement of construction for the full scale Stage 2 HPA First Project.

Changes to valuation

- Factoring in the 45.0m share placement to ORI at $0.44/sh, raising $19.8; and
- Reduced our HPA First project risk discount to 20% (previously 25%) to take into account the third party validation of the project and potential for a second HPA First project development as a result of the ORI placement and MoU.

Risked & diluted valuation summary

Table 1 - Risked & diluted valuation summary

Product price scenario		**1**	**2**	**3**
				Preferred
Price - 4N HPA (US$/t)		**15,000**	**20,000**	**25,000**
HPA First Project				
Unrisked NPV (10% discount rate)		**303**	**744**	**1,184**
Risk discount	20%			
Risked NPV (10% discount rate)		**242**	**595**	**948**
Corporate costs	-40			
Enterprise value		**202**	**555**	**908**
Net debt / (cash)	-28			
Equity valuation (risked, undiluted)		**230**	**583**	**935**
Assumed capital raise $m	90			
Assumed raise price $/sh	0.489			
Government grant $m	60			
Current shares on issue m	857			
In the money options m	31			
Assumed capital raising dilution m	184			
Diluted shares on issue m	**1,072**			
Net debt / (cash) (including options, assumed raising & grants)	-188			
Equity valuation (risked, diluted)		**391**	**743**	**1,096**
Equity valuation (risked, diluted) $/sh		**0.36**	**0.69**	**1.02**
Current share price	0.575			
Valuation / price		0.6x	1.2x	1.8x

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our risked and diluted A4N valuation is based on:

- 4N HPA prices of US$25,000/t (consistent with CRU Group's market outlook);
- A4N's March 2020 Definitive Feasibility Study HPA First Project capital and operating costs; and
- A4N's published Precursor Production Facility (June 2021) capital and operating cost estimates.

Risk and dilution to calculated NPV:

- Project risk discount of 20% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed $90m equity raising prior to commencement of full scale construction in mid-2022, at a 15% discount to A4N's current share price.

Preferred valuation at high end of product price range

Our preferred HPA product pricing assumption is at the high end of A4N's published definitive feasibility study price ranges, which we believe is justified:

- Since the DFS, A4N has identified a number of precursor high purity aluminium and alumina products which have the potential to add further value to the project. These precursor products are produced mid-stream of the project's flow-sheet, are expected to be higher margin and have the potential to provide increased return on capital invested.
- The global decarbonisation and reshoring themes have accelerated in recent months as developed economies look to address climate change targets in the context of a post-pandemic economic recovery. A4N's HPA First Project products have applications in technologies directly linked to these themes; the manufacturing of lithium ion batteries, LED lighting and semiconductors.
- There is potential for A4N's products to have applications in the manufacture of micro-LEDs. Micro LED technology is expected to be the next generation of display technology, superseding OLED and black-lit LCDs.
- Commercialisation of A4N's HPA First Project technology could step beyond the proposed Gladstone project development. With A4N's propriety technology, HPA First Project could be scaled up or replicated elsewhere. A4N and ORI have a MoU to investigate the technical and commercial feasibility of establishing a new facility in North America near ORI's Carseland asset in Alberta, Canada.
- A4N has announced the HPA First Project has received a Federal Government funding grant of $45m ($40.5m to A4N) to support the project through the Modern Manufacturing Initiative programme. Subsequently, a further grant of up to $15.5m from the Critical Minerals Accelerator Initiative was awarded.

Future capital requirements & funding options

A4N's March 2020 HPA First Project DFS estimated capital costs of $308m, including $27m over-run contingency.

The HPA First Project's location (Gladstone, Queensland) and end products (inputs into key decarbonising technologies) make it a candidate for Government backed concessional debt finance. We expect that the Northern Australia Infrastructure Facility and Clean Energy Finance will consider extending debt facilities to support the project. We also expect that commercial banks diversifying away from carbon intensive projects will have an interest in extending debt and working capital finance.

The following table outlines the HPA First Project's capital requirements and the sources of funding which we assume. We factor in a $90m equity raising over the next twelve months to support the project's development and working capital ahead of debt draw-down.

Table 2 - Future capital requirements

Capital costs		**A$m**
Processing plant		173
Utilities		19
Infrastructure		39
Indirects		44
Owners costs		7
Total excluding contingency		**281**
Contingency		27
Total funding requirement		**308**
Assumed sources of funds	**% est.**	**A$m**
Debt finance	65%	200
Equity	35%	108
Total	**100%**	**308**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Alpha HPA Ltd summary

Company description

A4N's HPA First Project is aiming to supply high-purity alumina (HPA) at a purity of greater than 99.99% (or 4N) to the lithium ion battery and light emitting diode (LED) manufacturing sectors. The project's proprietary technology is expected to disrupt incumbent HPA production through significantly lower unit costs. Results of a March 2020 DFS outlined a 10,000tpa 4N HPA project with a capital cost of $308m and pre-tax annual cash flow of $133-280m at 4N HPA prices ranging US$15,000-25,000/t.

In June 2021, a HPA First Project Stage 1 was estimated to have revenues of $10-15m and generate free cash flow of $1.5-5.0m from aluminium precursor production of 200tpa. When integrated into the full HPA First Project, this free cash flow increases to $8-11m. The project was subsequently up-scaled to 350tpa.

The HPA First Project is a solvent extraction process using an aluminium chemical feedstock purchased on globally traded markets. Orica Ltd (ORI) and A4N have executed a definitive agreement for ORI's supply of process reagents and for by-product offtake. This agreement has required significant third party due diligence of the HPA First Project process.

Investment view: Speculative Buy, Valuation $1.02/sh

A4N's high purity aluminium and high purity alumina (HPA) products have value-adding application across lithium ion battery, micro-LED and semiconductor manufacturing. These technologies are at the forefront of the global decarbonising and reshoring themes. Over the coming quarters, we expect A4N to announce initial product offtake agreements with major battery supply chain and chemical participants in support of debt financing and FID for the full scale HPA First project in Gladstone.

Our valuation now incorporates the ORI share placement. A4N is a development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Valuation methodology

We have modelled the HPA First Project using assumptions consistent with the March 2020 DFS. We assume:

- 4N HPA prices of US$25,000/t (consistent with CRU Group's market outlook);
- A4N's March 2020 Definitive Feasibility Study HPA First Project capital and operating costs; and
- A4N's published Precursor Production Facility (June 2021) capital and operating cost estimates.

Risk and dilution to calculated NPV:

- Project risk discount of 20% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed $90m equity raising prior to commencement of full scale construction in mid-2022, conservatively at a 15% discount to A4N's current share price.

Risks

Risk to an investment in A4N include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of development and operating assets and companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Technology:** Projects may be reliant on commercialisation of new production processes and methodologies which have yet been proven on a large scale. Technology may be replicated by competitors resulting in a loss of market share.
- **Infrastructure access.** Projects are reliant upon access to transport and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for raw material inputs and labour can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to commodity and labour markets. Companies are also exposed to costs associated with future land rehabilitation.
- **Sovereign risks.** Companies' assets are subject to the sovereign risk of the country of location and may also be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuations of companies.
- **Environmental risks.** Companies are exposed to risks associated with environmental degradation as a result of their production processes.
- **Operating and development risks.** Companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Companies are exposed to OH&S risks.
- **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.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19).** This may have an adverse impact on the macro economic factors, including the mobility of labour, which can impact asset valuations.

Alpha HPA Ltd
as at 14 November 2022

Recommendation	Buy, Speculative
Price	$0.575
Valuation	$1.02

Table 3 - Financial summary

Date		**14/11/22**
Price	**A$/sh**	**0.575**
Valuation	**A$/sh**	**1.02**

Bell Potter Securities

Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)

PROFIT AND LOSS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
Revenue	$m	1	2	8	142	353
Expenses	$m	(15)	(9)	(12)	(56)	(99)
EBITDA	$m	**(14)**	**(7)**	**(4)**	**85**	**254**
Depreciation & amortisation	$m	(2)	(0)	(1)	(10)	(18)
EBIT	$m	(16)	(7)	(5)	76	236
Net interest expense	$m	(0)	0	(6)	(9)	(12)
Profit before tax	$m	(16)	(7)	(11)	67	224
Tax expense	$m	-	-	-	(4)	(67)
NPAT (reported)	$m	**(16)**	**(7)**	**(11)**	**63**	**157**
NPAT (adjusted)	$m	**(16)**	**(7)**	**(11)**	**63**	**157**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
OPERATING CASH FLOW						
Receipts from customers	$m	-	-	10	115	311
Payments to suppliers and employe	$m	(3)	(4)	(18)	(52)	(94)
Tax paid	$m	-	-	-	(4)	(67)
Net interest	$m	0	0	(6)	(9)	(12)
Other	$m	1	-	-	-	-
Operating cash flow	$m	**(2)**	**(4)**	**(14)**	**51**	**137**
INVESTING CASH FLOW						
Capex	$m	(7)	(31)	(169)	(187)	(33)
Acquisitions	$m	-	0	-	-	-
Other	$m	-	-	50	-	-
Investing cash flow	$m	**(7)**	**(31)**	**(119)**	**(187)**	**(33)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	(0)	(0)	100	100	-
Dividends paid	$m	-	-	-	-	-
Proceeds from share issues (net)	$m	51	1	90	-	-
Other	$m	0	-	-	-	-
Financing cash flow	**$m**	51	1	190	100	-
Change in cash	**$m**	**42**	**(34)**	**57**	**(36)**	**104**
Free cash flow	$m	(8)	(35)	(133)	(136)	104

BALANCE SHEET

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
ASSETS						
Cash	$m	50	17	74	38	142
Receivables	$m	1	3	2	28	71
Inventories	$m	-	0	1	6	10
Capital assets	$m	1	28	196	373	388
Other assets	$m	0	6	6	6	6
Total assets	**$m**	**52**	**55**	**279**	**451**	**616**
LIABILITIES						
Creditors	$m	2	7	2	11	20
Borrowings	$m	-	-	100	200	200
Provisions	$m	-	-	-	-	-
Other liabilities	$m	0	1	1	1	1
Total liabilities	**$m**	**2**	**8**	**103**	**212**	**220**
NET ASSETS	**$m**					
Share capital	$m	100	102	242	242	242
Reserves	$m	8	10	10	10	10
Accumulated losses	$m	(57)	(64)	(75)	(12)	145
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**50**	**47**	**176**	**239**	**396**
Weighted average shares	m	694	794	888	980	980

FINANCIAL RATIOS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
VALUATION						
EPS	Ac/sh	(2)	(1)	(1)	6	16
EPS growth (Acps)	%	na	na	na	na	150%
PER	x	-24.6x	-61.8x	-46.6x	8.9x	3.6x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	(1.2)	(4.4)	(15.0)	(13.9)	10.6
FCF yield	%	-2%	-8%	-26%	-24%	18%
EV/EBITDA	x	-33.3x	-64.8x	-130.8x	5.4x	1.8x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(50)	(17)	26	162	58
Net debt / Equity	%	-100%	-36%	15%	68%	15%
Net debt / Net debt + Equity	%	82517%	-56%	13%	40%	13%
Net debt / EBITDA	x	3.6x	2.3x	-7.4x	1.9x	0.2x
EBITDA /net int expense	x	-148.6x	432.5x	-0.6x	9.5x	21.2x
PROFITABILITY RATIOS						
EBITDA margin	%	-1446%	-352%	-42%	60%	72%
EBIT margin	%	-1676%	-362%	-58%	53%	67%
Return on assets	%	-52%	-14%	-7%	17%	29%
Return on equity	%	-54%	-15%	-10%	30%	49%

ASSUMPTIONS - Prices (nominal)

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
4N HPA price	US$/t	25,000	25,000	25,000	25,000	25,000
4N HPA price	A$/t	33,787	34,014	34,014	33,784	33,784
FX	US$/A$	0.74	0.74	0.74	0.74	0.74

ASSUMPTIONS - Sales (equity)

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
4N HPA sales	t	-	-	-	3,740	10,000
5N Al-Precursor #1 - Al-Nitrate	t	-	-	98	175	175
5N Al-Precursor #2 - Al-Sulfate	t	-	-	98	175	175

VALUATION

				Preferred
Product price scenario		**1**	**2**	**3**
4N HPA price US$/t		**15,000**	**20,000**	**25,000**
HPA First project $m				
Unrisked NPV (10% discount rate)		303	744	1,184
Risk discount	20%			
Risked NPV		242	595	948
Corporate costs $m	(40)			
Enterprise value $m		202	555	908
Net debt / (cash) $m	(28)			
Equity valuation (risked, undiluted) $m		**230**	**583**	**935**
Assumed capital raise $m	90			
Assumed raise price $/sh	0.49			
Current shares on issue m	857			
In the money options m	31			
Assumed capital raising dilution m	184			
Diluted shares on issue m	**1,072**			
Net debt / (cash) (including options & assumed raising) $m	(188)			
Equity valuation (risked, diluted) $m		391	743	1,096
Equity valuation (risked, diluted) $/sh		**0.36**	**0.69**	**1.02**

SOURCE: BELL POTTER SECURITIES ESTIMATES

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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Disclosure: Bell Potter Securities acted as Joint Lead Manager for A4N's $50m placement in June 2021 and received fees for that service.

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