

Alpha HPA Ltd

(A4N \$0.61) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Steven Clark	4 th June 2021	\$0.86/sh ▲ from \$0.80/sh

Precursor Production Facility

Event

A4N has announced its intent to construct a nominal 200tpa Precursor Production Facility (PPF) on the HPA First Project site within the Gladstone Development Area. Gross proceeds of A\$50m have been raised to fund construction of the facility and place orders for long lead items for the full-scale commercial HPA facility.

Impact

- The PPF will facilitate the decoupling of 5N AI Precursor cash flows from the long lead component of the full-scale facility;
- A demand-driven blend of 5N AI Precursors #1 & #2 will be produced in FY23 to fulfil immediate end user demand;
- The PPF reagent supply agreement with Orica Ltd (ASX: ORI) heightens our confidence in the execution of a definitive agreement;
- Incorporation of forecast cash flows from the PPF and the midpoint of guided full-scale plant capex savings provides a A\$40m (\$0.05/sh) uplift to our NPV₁₀ valuation;
- We have decreased our model risk weighting by 5% in recognition of reduced potential dilution and a de-risked path to commercial production.

Action

We maintain our Speculative Buy recommendation and increase our Price Target to \$0.86/sh (prev. \$0.80/sh).

Key Catalysts

- Definitive agreement with Orica Ltd;
- Binding product offtake agreements;
- Gladstone site environmental permitting;
- Revised MCU approval;
- Project financing;
- Optimised HPA First Project DFS;
- Project FID;
- Potential production of HPA powder and pellets at 5N purity;
- Strategic equity transaction(s) with project counterparties;

Alpha HPA Ltd	Year End 30 June	
Share Price	0.61	A\$/sh
Price Target	0.86	A\$/sh
Valuation	0.86	A\$/sh

Shares on Issue	868	m (dil)
Market Capitalisation	530	A\$m
Enterprise Value	454	A\$m
Debt (Jun-21)	-	A\$m
Unpaid Capital	26	A\$m
Cash (Jun-21)	51	A\$m
Largest Shareholder	Regal	9.0%

Production F/Cast	2023F	2024F	2025F
4N+ HPA (kt)	-	5.2	9.2
5N+ AI Precursors (kt)	0.16	0.20	0.20

Assumptions	2023F	2024F	2025F
4N+ HPA Price (US\$/kg)	20.0	20.0	22.5
Operating Costs (US\$/kg)	0.0	6.5	6.5
AUD/USD (x)	0.74	0.74	0.74

Key Financials	2023F	2024F	2025F
Revenue (A\$m)	11	153	293
EBITDA (A\$m)	1	106	210
NPAT (A\$m)	-21	54	120
Cashflow (A\$m)	-20	63	137

CFPS (Ac)	-2.3	7.3	15.9
P/CFPS (x)	na	8.3	3.8

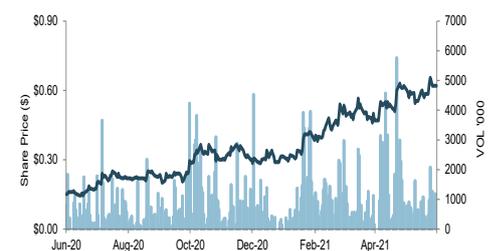
EPS (Ac)	-2.5	6.3	13.9
EPS growth (%)	na	353%	122%
P/E (x)	na	9.8	4.4

EV/EBITDA (x)	na	7.4	2.8
EV/EBIT (x)	na	8.2	3.0

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND/ND + Equity (%)	80%	56%	14%
Interest Cover (x)	na	na	na

Share Price Chart



Disclaimer

Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to A4N during the last year. Euroz Hartleys has received a fee for these services.

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Alpha HPA Ltd

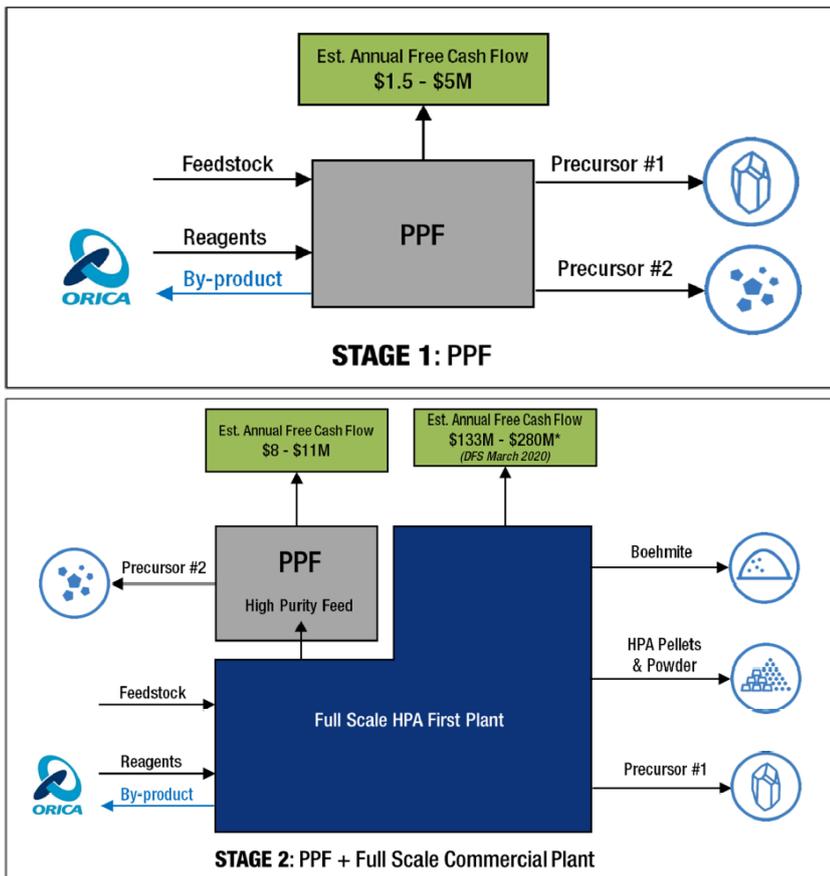
(A4N \$0.61) Speculative Buy



Analysis

Whilst modest as a standalone facility in terms of free cash generation, we see significant value in the capacity of the PPF to immediately service demand for A4N's 5N Al precursors and establish market share ~15 months in advance of initial production from the full scale HPA First Project. The PPF will utilise the same suppliers for feedstock and process reagents as the full scale facility, with the sole difference being the delivery of reagents to the PPF via truck load-out (as opposed to pipe connections to Orica's adjacent plant).

Subsequent to commissioning of the full scale HPA First Project, a high purity aluminium feed fed directly by the full scale plant will be converted to >200tpa of Al Precursor #2. We ultimately think Al Precursor #2 capacity (and in turn production) will materially exceed 200tpa with reference to the growing adoption of aluminium bearing cathode chemistries and impurity levels of recent production batches (<1ppm total impurities).



Source: Company Reports

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Alpha HPA Ltd

(A4N \$0.61) Speculative Buy

Initial PPF production will comprise a demand-driven blend of Al Precursors #1 and #2, in addition to pre-commercial volumes of HPA and boehmite in the vicinity of 1-5tpa. We derive an NPV₁₀ valuation of A\$30m for the PPF (20-year DCF in alignment with the indicative term of the Orica MoU) with reference to the following assumptions:

- Commencement of plant construction and initial production in Jul'21 and Aug'22 respectively;
- Plant capex of A\$27.6m with initial FY23 production of 90t Al Precursor #1, 74t Al Precursor #2 and 3t HPA at base scenario pricing;
- LT PPF production rate of 200tpa of Al Precursor #2 at the upper end of price guidance (US\$45/kg);
- LT PPF operating costs of A\$1.8m inclusive of licensor fees, implying LT avg. annual EBITDA of \$10.4m pa;

In the absence of clarity on final commercial allocations, pricing and unit costs at scale, our modelling of cash flows from the full scale plant conservatively does not incorporate the material uplift in earnings we anticipate from commercial production of Al Precursor #1.

Noting the production of both precursors excludes the drying, calcination and milling phases of the flowsheet used to produce the existing HPA powder and pellets, we estimate that production of Al Precursor #1 under the commercial facility will displace HPA production at a ratio of ~6.5:1, and at a comparatively lower unit cost as outlined below. Further to which, our modelling is yet to incorporate the capex and opex savings of a key process improvement leading to the removal of the energy intensive jet milling phase in producing HPA for its dominant application within LiB cells.

		DFS	Optimised DFS
Source		Mar'20 Release	EHL estimates
LT avg. HPA price assumed (bull case adopted)	US\$/kg	25	25
LT avg. 5N Precursor price	US\$/kg	na	50
HPA production	tpa	10,000	9,000
Precursor production	tpa	-	1,000
Weighted avg. unit operating costs	US\$/kg	5.9	5.2
Steady-state revenue	A\$m	338	372
Steady-state EBITDA	A\$m	258	297

Assumes AUD/USD rate of 0.74

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Alpha HPA Ltd

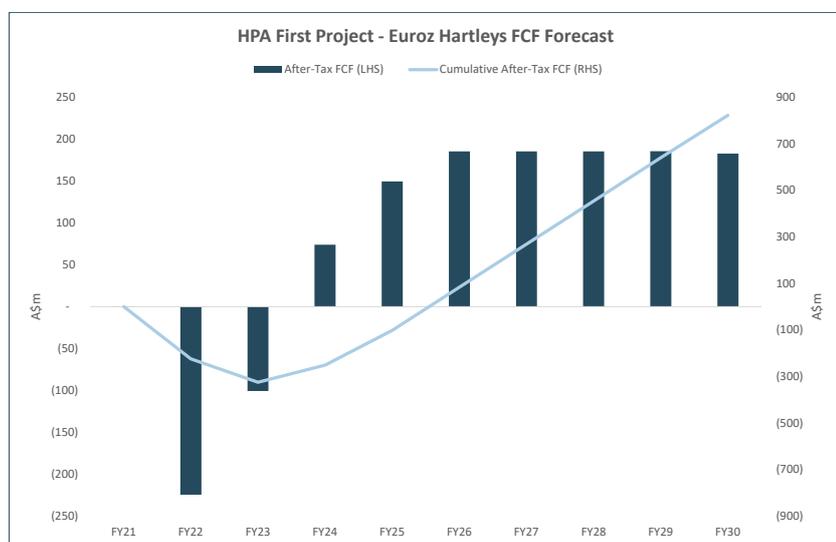
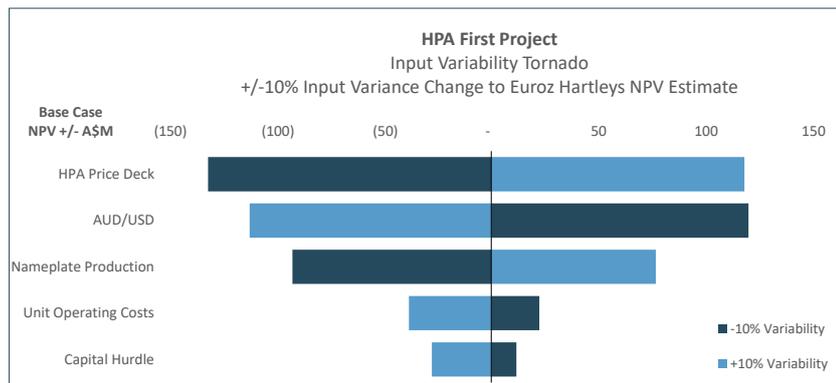
(A4N \$0.61) Speculative Buy



Key Variables

	Annual EBITDA (A\$m)	4N HPA Price (US\$/kg)									
		\$12.5	\$15.0	\$17.5	\$20.0	\$22.5	\$25.0	\$27.5	\$30.0	\$32.5	\$35.0
Total Operating Costs (incl. by-product credits) (A\$/kg)	\$13.0	39	73	106	140	174	208	242	275	309	343
	\$12.0	49	83	116	150	184	218	252	285	319	353
	\$11.0	59	93	126	160	194	228	262	295	329	363
	\$10.0	69	103	136	170	204	238	272	305	339	373
	\$9.0	79	113	146	180	214	248	282	315	349	383
	\$8.0	89	123	156	190	224	258	292	325	359	393
	\$7.0	99	133	166	200	234	268	302	335	369	403
	\$6.0	109	143	176	210	244	278	312	345	379	413
	\$5.0	119	153	186	220	254	288	322	355	389	423

	Valuation (A\$/sh)	4N HPA Price (US\$/kg)									
		\$12.5	\$15.0	\$17.5	\$20.0	\$22.5	\$25.0	\$27.5	\$30.0	\$32.5	\$35.0
AUD/USD (x)	0.78	0.11	0.26	0.40	0.55	0.70	0.84	0.99	1.14	1.28	1.43
	0.77	0.12	0.27	0.42	0.57	0.71	0.86	1.01	1.16	1.31	1.46
	0.76	0.13	0.28	0.43	0.58	0.73	0.88	1.03	1.19	1.34	1.49
	0.75	0.14	0.29	0.45	0.60	0.75	0.90	1.06	1.21	1.36	1.52
	0.74	0.15	0.31	0.46	0.62	0.77	0.93	1.08	1.24	1.39	1.55
	0.73	0.16	0.32	0.48	0.63	0.79	0.95	1.10	1.26	1.42	1.58
	0.72	0.17	0.33	0.49	0.65	0.81	0.97	1.13	1.29	1.45	1.61
	0.71	0.18	0.35	0.51	0.67	0.83	0.99	1.16	1.32	1.48	1.64
	0.70	0.20	0.36	0.52	0.69	0.85	1.02	1.18	1.35	1.51	1.67



Our Share Price Sensitivity



Our Market Sensitivity

Price Target **\$0.86/sh**
Valuation **\$0.86/sh**

Bull Scenario \$1.50/sh

A4N realises prices materially in excess of our LT weighted avg. assumption of US\$25/kg subsequent to commercialisation. HPA purity of 5N+ is achieved with margins assisted by the successful penetration of A4N's 5N Al precursors at commercial scale.

Base Scenario \$0.86/sh

A4N successfully commercialises the HPA First project and ramps up to nameplate capacity of 10ktpa of HPA equivalent. A4N realises a LT weighted avg. basket price aligned with our LT assumption of US\$25/kg whilst achieving an operating cost profile aligned with Mar'20 DFS metrics.

Bear Scenario \$0.30/sh

A4N's proprietary flowsheet is replicated by competitor(s) and/or A4N fails to secure offtake agreements and in turn funding for commercialisation of the HPA First Project.

Company Summary

Alpha HPA Ltd is pursuing the commercialisation of its proprietary solvent extraction and refining technology (the HPA First Project) to produce High Purity Alumina (HPA). Located in Queensland's Gladstone State Development Area, the HPA First Project is capable of delivering 10.2ktpa of HPA equivalent products into the burgeoning lithium-ion battery and LED lighting markets.

Disclaimer

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.

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Alpha HPA Ltd

(A4N \$0.61) Speculative Buy

Market Statistics				Year End 30 June			
Share Price	0.61	A\$/sh	Directors				
Issued Capital			Norman Seckold	Chairman			
Fully Paid Ordinary	783	m	Rimas Kairatis	MD			
Options	85	m	Peter Nightingale	Director			
Total Dil. FPOrd	868	m	Justin Werner	Director			
			Anthony Sgro	NED			
			Cam Peacock	NED			
Market Cap	530	A\$m					
Enterprise Value	454	A\$m					
Cash (Jun-21)	51	A\$m	Substantial Shareholders				
Debt (Jun-21)	0	A\$m	Regal Funds Mgmt	9.0%			
Unpaid Capital	26	A\$m					
Asset Valuation				A\$m	A\$/sh		
HPA First Project (Full-Scale Plant)			657	0.76			
Precursor Production Facility			30	0.03			
Corporate Overheads			(19)	(0.02)			
Cash (Jun-21)			51	0.06			
ITM Options			26	0.03			
Wonogiri Consideration			3	0.00			
Total			747	0.86			
F/Cast Production (A\$m)				2021F	2022F	2023F	2024F
4N+ HPA Production	kt	0.0	0.0	0.0	5.2		
5N+ AI Precursor Production	kt	0.00	0.00	0.16	0.20		
4N+ HPA Price	US\$/kg	20.0	20.0	20.0	20.0		
Operating Costs*	US\$/kg	0.0	0.0	0.0	6.5		
AISC*	US\$/kg	0.0	0.0	0.0	6.9		
* Full-Scale Plant							
Ratio Analysis (A\$m)				2021F	2022F	2023F	2024F
CF (A\$m)		-4.1	-16.6	-20.2	63.4		
CFPS (Ac/sh)		-0.5	-1.9	-2.3	7.3		
CF Ratio (x)		na	na	na	8.3		
Earnings (A\$m)		-5.5	-16.6	-21.3	54.0		
EPS (Ac/sh)		-0.6	-1.9	-2.5	6.3		
EPS Growth (%)		na	na	na	353%		
P/E Ratio (x)		na	na	na	9.8		
Enterprise Value (A\$m)		477.8	645.9	767.9	707.7		
EV/EBITDA (x)		na	na	na	7.4		
EV/EBIT (x)		na	na	na	8.2		
Net Debt (A\$m)		-51.8	119.3	241.2	181.1		
ND/(ND + Equity) (%)		na	61%	80%	56%		
EBIT Margin (%)		na	na	-73%	57%		
ROE (%)		-11%	-22%	-36%	38%		
ROA (%)		-11%	-6%	-6%	13%		
Div. (Ac/sh)		0%	0%	0%	0%		
Div. Payout Ratio (%)		0%	0%	0%	0%		
Div. Yield (%)		0%	0%	0%	0%		
Div. Franking (%)		100%	100%	100%	100%		
Profit and Loss (A\$m)				2021F	2022F	2023F	2024F
(+) Sales revenue		-	-	10.8	153.5		
(+) Interest income		-	-	-	-		
(+) Other revenue		1.4	1.0	-	-		
Total Revenue		1.4	1.0	10.8	153.5		
(-) Costs of production		(0.1)	(0.1)	(10.0)	(47.2)		
(-) Corporate overheads		(6.8)	(7.5)	(7.5)	(10.0)		
(-) D&A		-	-	(1.1)	(9.4)		
(-) Other		-	-	-	-		
EBITDA		(5.5)	(6.6)	(6.7)	96.2		
EBIT		(5.5)	(6.6)	(7.8)	86.8		
(-) Interest Expense		-	(10.0)	(13.5)	(13.5)		
NPBT		(5.5)	(16.6)	(21.3)	73.3		
(-) Minority Interest		-	-	-	-		
NPBT (ex-min.)		(5.5)	(16.6)	(21.3)	73.3		
(-) Tax		-	-	-	(19.4)		
Net Profit		(5.5)	(16.6)	(21.3)	54.0		
Cash Flow (A\$m)				2021F	2022F	2023F	2024F
Net Profit		(5.5)	(16.6)	(21.3)	54.0		
(+) Working Capital Adj.		-	-	-	-		
(+) D&A		-	-	1.1	9.4		
(+) Tax Expense		-	-	-	19.4		
(-) Tax Paid		-	-	-	(19.4)		
(+/-) Other		1.4	-	-	-		
Operating Cashflow		(4.1)	(16.6)	(20.2)	63.4		
(-) Capex & Development		-	(224.6)	(101.7)	(3.2)		
(-) Exploration		-	-	-	-		
(+/-) Other		(2.4)	-	-	-		
Investing Cashflow		(2.4)	(224.6)	(101.7)	(3.2)		
(+) Equity Issues		50.3	70.0	-	-		
(+) Loan Drawdown		-	200.0	70.0	-		
(-) Loan Repayment		-	-	-	-		
(-) Dividends		-	-	-	-		
Financing Cashflow		50.3	270.0	70.0	-		
Net Cashflows		43.8	28.9	(51.9)	60.1		
(+/-) FX Adj.		-	-	-	-		
EoP Cash Balance		51.8	80.7	28.8	88.9		
Balance Sheet (A\$m)				2021F	2022F	2023F	2024F
Assets							
Cash		51.8	80.7	28.8	88.9		
Current Receivables		0.3	0.2	2.2	30.7		
Other Current Assets		-	-	-	-		
Non-Current Assets		-	197.0	298.5	293.3		
Total Assets		52.1	277.9	329.4	412.9		
Liabilities							
Borrowing(s)		-	200.0	270.0	270.0		
Current Accounts Payable		1.0	1.0	0.5	2.4		
Other Liabilities		-	-	-	-		
Total Liabilities		1.0	201.0	270.5	272.4		
Net Assets		51.1	76.9	58.9	140.6		

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.

Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Hartleys Limited (ACN 104 195 057) only.

Euroz Hartleys Limited is the holder of an Australian Financial Services Licence (AFSL 230052) and is a participant of the Australian Securities Exchange Group.

The information contained herein is confidential. If you are not the intended recipient no confidentiality is lost by your receipt of it. Please delete and destroy all copies, and contact Euroz Hartleys Limited on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz Hartleys Limited.

Disclaimer & Disclosure

Euroz Hartleys Limited, and their associates declare that they deal in securities as part of their securities business and consequently may have an interest in the securities recommended herein (if any). This may include providing equity capital market services to the issuing company, hold a position in the securities, trading as principal or agent and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz Hartleys Limited declares that they may have separately or jointly acted as an underwriter, arranger, co-arranger or adviser in equity capital raisings, and will have received a fee for its services, from or any company mentioned within this report during the last 12 months.

You should not act on any recommendation issued by Euroz Hartleys Limited without first consulting your investment adviser in order to ascertain whether the recommendation (if any) is appropriate, having regard to your objectives, financial situation and needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz Hartleys Limited believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz Hartleys Limited accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.

The author of this publication, Euroz Hartleys Limited, its directors and their associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Euroz Hartleys Limited, and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of transactions arising from any advice mentioned in publications to clients.

Analyst Certification

We hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities, and we are not in possession of, nor does this Research contain any inside information.

No part of our compensation was, is or will be directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in this research, nor has any attempt been made to influence this Research.

Contact Details

Euroz Hartleys Limited +61 8 9488 1400

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Mike Millikan - Resources Analyst	+61 8 9268 2805
Kyle De Souza - Resources Analyst	+61 8 9488 1427
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Gavin Allen - Senior Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizee - Associate Research Analyst	+61 8 9488 1414

Euroz Hartleys Limited

All information and advice is confidential and for the private information of the person to whom it is provided and is provided without any responsibility or liability on any account whatsoever on the part of Euroz Hartleys Limited or any member or employee thereof. Refer to full disclaimer at the end of this document.