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Alpha HPA Ltd (A4N)

Ground-breaking

Recommendation
Buy (unchanged)

Price
\$0.495
Valuation
\$0.87 (unchanged)

Risk
Speculative
GICS Sector
Materials
Expected Return

Capital growth	76%
Dividend yield	0%
Total expected return	76%

Company Data & Ratios

Enterprise value	\$346m
Market cap	\$393m
Issued capital	793m
Free float	86%
Avg. daily val. (52wk)	\$714,943
12 month price range	\$0.26-0.675

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.46	0.49	0.30
Absolute (%)	7.6	1.0	65.0
Rel market (%)	5.0	1.2	39.0

Absolute Price


SOURCE: IRESS

Approvals for Gladstone development received

A4N has announced State Government approvals and land acquisition settlement enabling it to commence development of the HPA First Project in Gladstone. The announcement follows a quarter where definitive agreements with Orica (ASX:ORI, not rated) for reagent supply and offtake were signed, eight high purity alumina (HPA) and aluminium precursor supply bids were submitted and Strategic Assessment Approval for potential Northern Australia Infrastructure Facility (NAIF) debt finance was received.

Offtake, EPCM & financing work streams progressing

The current quarter and next should bring further project de-risking news flow and ultimately a Final Investment Decision for the full scale HPA First Project. A4N is continuing to progress offtake discussions and we expect counterparties and initial agreements to be announced. The HPA First Project FEED study is progressing to enable EPCM nomination. Financing discussions with government concessional lenders (including NAIF) and commercial banks are ongoing, with the lenders' Independent Technical Expert process nearing completion.

Investment view: Buy (Speculative), Valuation \$0.87/sh

A4N's HPA and aluminium precursor products have applications in lithium ion battery, micro-LED and semiconductor manufacturing; technologies at the forefront of the global decarbonising and onshoring themes. The company's proprietary process has produced product samples which have been recognised by a number of end users as the highest purity tested. The high purity products and competitive unit costs have the potential to disrupt incumbent production methods and establish A4N as an integral part of the rapidly advancing decarbonising technology supply chain. Our \$0.87/sh valuation (unchanged) is risked to account for the HPA First Project's pre-development stage and diluted for likely capital requirements.

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	2021e	2022e	2023e	2024e
Sales (A\$m)	0	0	13	247
EBITDA (A\$m)	(3)	(3)	(1)	148
NPAT (reported) (A\$m)	(3)	(3)	(9)	93
NPAT (adjusted) (A\$m)	(3)	(3)	(9)	93
EPS (adjusted) (eps)	(0.4)	(0.3)	(0.8)	8.9
EPS growth (%)	na	na	na	na
PER (x)	-139.5x	-142.3x	-61.2x	5.6x
FCF Yield (%)	-1%	-30%	-34%	6%
EV/EBITDA (x)	-135.2x	-107.8x	-540.8x	2.3x
Dividend (eps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-7%	-2%	-5%	40%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Ground-breaking

Approvals for Gladstone development received

A4N has announced Queensland State Government Approval and settlement of the HPA First Project site acquisition. The company can now mobilise earthmoving contractors to prepare the site for the civil works required for construction of the first stage of the HPA First Project development, the Precursor Production Facility (PPF).

The PPF will fast track the production of commercial volumes of A4N's aluminium precursor products which are used in aluminium-bearing cathodes of certain lithium ion batteries. First production of precursors is expected from August 2022.

The PPF is fully funded, has an estimated capital cost of \$28m and A4N expect it to generate annual revenues of \$10-15m and free cash flow of \$8-11m from late 2022. The design capacity of the PPF is around 200tpa of Precursor #1 or Precursor #2 and small volumes of high purity aluminate and boehmite (1-5tpa).

More value catalysts to come; next steps to FID

We expect the combination of early stage product offtake agreements and debt terms sheets to support a final investment decision for the HPA First Project in early 2022.

PRODUCT OFFTAKE AGREEMENTS

Over the next few months we expect A4N will announce early stage offtake agreements with customers for HPA and aluminium precursor products. A4N has submitted supply bids over a range of products to eight separate end-users located in the US, Japan and the EU.

Market outreach has been supported by battery minerals supply chain specialist Traxys North America. A4N has also had direct engagement with product end-users and potential customers. A4N's global marketing partners include:

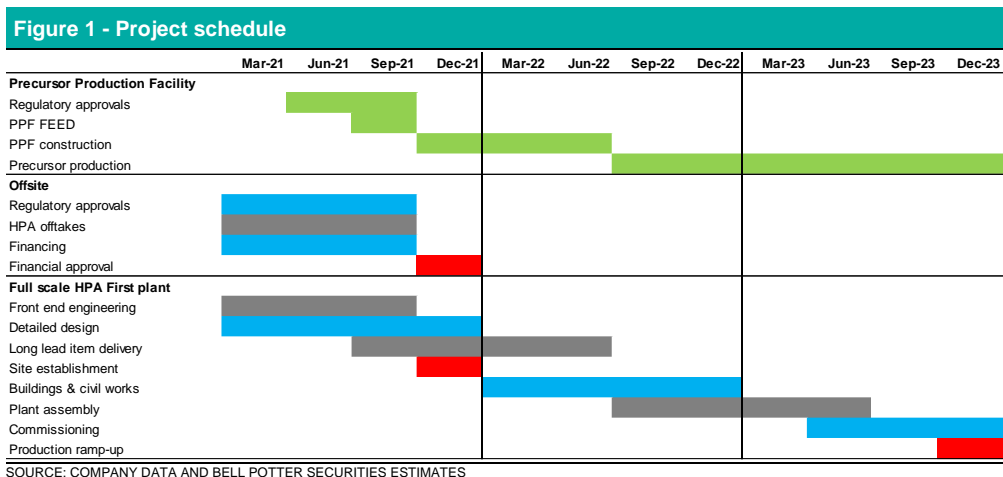
- Rhineland Specialties – North America;
- APL Engineered Materials – Japan and China; and
- Technologica – European Union.

A4N also has a MoU in place with Saint Gobain Ceramics & Plastics, Inc with respect to product evaluation, product development and potential future commercial supply.

FINANCING THE FULL-SCALE HPA FIRST PROJECT & FID

A4N is working with KPMG's Brisbane-based Debt Advisory Team with respect to debt funding the HPA First Project capital cost. A combination of Australian Commonwealth Government concessional lenders and commercial banks have been engaged. The lenders' Independent Technical Expert review process is nearing completion. The ITE's initial "Red Flag Report" identified no fatal flaws with all identified risks, after mitigation steps, considered to be low.

The HPA First Project's total capital cost estimate (March 2020 DFS) was \$308m, including around 10% in contingencies. We expect that A4N will debt fund a large proportion of this capital cost.



Earnings capability: EBITDA of ~\$250m/year at steady state

We estimate that the HPA First Project, in its current form, could generate annual EBITDA of more than \$250m at steady state. This assumption is supported by production of 10ktpa at average prices of US\$25/kg for annual revenue of \$350m. At costs of around US\$8.50/kg (consistent with A4N's March 2020 DFS), EBITDA margins are around 70%.

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 technology) 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 \$130m equity raising over the next twelve months to support the project's development and working capital ahead of debt draw-down.

Table 1 - 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		308
Funding requirements	% est.	A\$m
Debt finance	65%	200
Equity	35%	108
Total	100%	308

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation & methodology

Risked & diluted valuation summary

Our risked and diluted A4N valuation is \$0.87/sh and 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 25% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed \$130m equity raising prior to commencement of full scale construction in mid-2022, at A4N's current share price.

Table 2 - Risked & diluted valuation summary

Product price scenario	1	2	3
			Preferred
4N HPA (US\$/t)	15,000	20,000	25,000
Al-Precursor #1 (US\$/t)	50,000	55,000	65,000
Al-Precursor #2 (US\$/t)	35,000	40,000	45,000
HPA First Project			
Unrisked NPV (10% discount rate)	299	701	1,108
Risk discount	25%		
Risked NPV (10% discount rate)	224	526	831
Corporate costs	-40		
Enterprise value	184	486	791
Net debt / (cash)	-46		
Equity valuation (risked, undiluted)	231	532	837
Assumed capital raise \$m	130		
Assumed raise price \$/sh	0.495		
Current shares on issue m	793		
In the money options m	83		
Assumed capital raising dilution m	263		
Diluted shares on issue m	1,139		
Net debt / (cash) (including options & assumed raising)	-202		
Equity valuation (risked, diluted)	387	688	993
Equity valuation (risked, diluted) \$/sh	0.34	0.60	0.87
Current share price	0.495		
Valuation / price	0.7x	1.2x	1.8x

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our preferred HPA product pricing assumption is at the high end of A4N's published 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 onshoring 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.

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 (prices are currently around \$24,000/t).

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. A 20-year partnership between A4N and ORI is being considered.

For further information on A4N's project and target markets, see our initiation research report dated 21 May 2020.

Investment view: Speculative Buy, Valuation \$0.87/sh

A4N's HPA and aluminium precursor products have applications in lithium ion battery, micro-LED and semiconductor manufacturing; technologies at the forefront of the global decarbonising and onshoring themes. The company's proprietary process has produced product samples which have been recognised by a number of end users as the highest purity tested. The high purity products and competitive unit costs have the potential to disrupt incumbent production methods and establish A4N as an integral part of the rapidly advancing decarbonising technology supply chain. Our \$0.87/sh valuation (unchanged) is risked to account for the HPA First Project's pre-development stage and diluted for likely capital requirements.

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 25% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed \$130m equity raising prior to commencement of full scale construction in mid-2022, conservatively at 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.

Table 3 - Financial summary

Date	5/11/21							Bell Potter Securities							
Price	A\$/sh	0.495							Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)						
Valuation	A\$/sh	0.87							Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)						
PROFIT AND LOSS							FINANCIAL RATIOS								
Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e	Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e		
Revenue	\$m	0	0	0	13	247	VALUATION								
Expenses	\$m	(10)	(3)	(3)	(14)	(99)	EPS	Ac/sh	(2)	(0)	(0)	(1)	9		
EBITDA	\$m	(10)	(3)	(3)	(1)	148	EPS growth (Acps)	%	na	na	na	na	na		
Depreciation & amortisation	\$m	(0)	-	-	(2)	(18)	PER	x	-33.0x	-139.5x	-142.3x	-61.2x	5.6x		
EBIT	\$m	(10)	(3)	(3)	(3)	130	DPS	Ac/sh	-	-	-	-	-		
Net interest expense	\$m	0	-	-	(6)	(12)	Franking	%	0%	0%	0%	0%	0%		
Profit before tax	\$m	(10)	(3)	(3)	(9)	118	Yield	%	0%	0%	0%	0%	0%		
Tax expense	\$m	-	-	-	-	(25)	FCF/share	Ac/sh	(0.9)	(0.4)	(15.0)	(16.9)	3.0		
NPAT (reported)	\$m	(10)	(3)	(3)	(9)	93	FCF yield	%	-2%	-1%	-30%	-34%	6%		
NPAT (adjusted)	\$m	(10)	(3)	(3)	(9)	93	EV/EBITDA	x	-36.2x	-135.2x	-107.8x	-540.8x	2.3x		
CASH FLOW STATEMENT							LIQUIDITY & LEVERAGE								
Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e	Net debt / (cash)	\$m	(8)	(65)	(55)	123	91		
OPERATING CASH FLOW							Net debt / Equity	%	-76%	-96%	-28%	67%	33%		
Receipts from customers	\$m	-	0	0	10	200	Net debt / Net debt + Equity	%	-325%	-2496%	-40%	40%	25%		
Payments to suppliers and employees	\$m	(2)	(3)	(3)	(13)	(90)	Net debt / EBITDA	x	0.8x	25.5x	17.0x	-192.3x	0.6x		
Tax paid	\$m	-	-	-	-	(25)	EBITDA / net int expense	x	261.6x	0.0x	0.0x	-0.1x	12.4x		
Net interest	\$m	0	-	-	(6)	(12)	PROFITABILITY RATIOS								
Other	\$m	1	-	-	-	-	EBITDA margin	%	-3083%	-128100%	-80275%	-5%	60%		
Operating cash flow	\$m	(0)	(3)	(3)	(8)	73	EBIT margin	%	-3083%	-128100%	-80275%	-19%	53%		
INVESTING CASH FLOW							Return on assets	%	-121%	-6%	-2%	-3%	21%		
Capex	\$m	(5)	-	(135)	(169)	(41)	Return on equity	%	-131%	-7%	-2%	-5%	40%		
Acquisitions	\$m	(0)	-	-	-	-	ASSUMPTIONS - Prices (nominal)								
Other	\$m	(0)	-	-	-	-	Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e		
Investing cash flow	\$m	(5)	-	(135)	(169)	(41)	4N HPA price	US\$/t	25,000	25,000	25,000	25,000	25,000		
FINANCING CASH FLOW							4N HPA price	A\$/t	37,024	33,787	34,014	34,014	33,784		
Debt proceeds/(repayments)	\$m	-	-	-	200	-	FX	US\$/A\$	0.68	0.74	0.74	0.74	0.74		
Dividends paid	\$m	-	-	-	-	-	ASSUMPTIONS - Sales (equity)								
Proceeds from share issues (net)	\$m	13	60	128	-	-	Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e		
Other	\$m	0	-	-	-	-	4N HPA sales	t	-	-	-	-	6,877		
Financing cash flow	\$m	13	60	128	200	32	5N Al-Precursor #1 - Al-Nitrate	t	-	-	-	87	100		
Change in cash	\$m	7	57	(11)	22	32	5N Al-Precursor #2 - Al-Sulfate	t	-	-	-	87	100		
Free cash flow	\$m	(6)	(3)	(139)	(178)	32	VALUATION								
BALANCE SHEET							VALUATION								
Year ending 30 June	Unit	2020a	2021e	2022e	2023e	2024e				Preferred					
ASSETS							Product price scenario			1		2		3	
Cash	\$m	8	65	55	77	109	4N HPA price US\$/t			15,000		20,000		25,000	
Receivables	\$m	0	0	0	3	49	HPA First project \$m								
Inventories	\$m	-	0	0	1	10	Unrisked NPV (10% discount rate)			299		701		1,108	
Capital assets	\$m	3	3	138	306	329	Risk discount	25%							
Other assets	\$m	0	0	0	0	0	Risked NPV			224		526		831	
Total assets	\$m	11	68	193	387	497	Corporate costs \$m	(40)							
LIABILITIES							Enterprise value \$m			184		486		791	
Creditors	\$m	1	1	1	3	20	Net debt / (cash) \$m	(46)							
Borrowings	\$m	-	-	-	200	200	Equity valuation (risked, undiluted) \$m			231		532		837	
Provisions	\$m	-	-	-	-	-	Assumed capital raise \$m	130							
Other liabilities	\$m	-	-	-	-	-	Assumed raise price \$/sh	0.50							
Total liabilities	\$m	1	1	1	203	220	Current shares on issue m	793							
NET ASSETS	\$m						In the money options m	83							
Share capital	\$m	48	108	236	236	236	Assumed capital raising dilution m	263							
Reserves	\$m	4	4	4	4	4	Diluted shares on issue m	1,139							
Accumulated losses	\$m	(41)	(43)	(47)	(55)	38	Net debt / (cash) (including options & assumed raising) \$m	(202)							
Non-controlling interest	\$m	(1)	(1)	(1)	(1)	(1)	Equity valuation (risked, diluted) \$m			387		688		993	
SHAREHOLDER EQUITY	\$m	10	68	192	184	277	Equity valuation (risked, diluted) \$/sh			0.34		0.60		0.87	
Weighted average shares	m	624	722	923	1,052	1,052									

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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Early Stage Company Risk Warning:

The stocks of early stage companies without regular revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. As A4N is yet to establish a regular income stream capable of producing net cash inflows from operations it is regarded as speculative in nature. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Investors are advised to be cognisant of these risks before buying such a stock including A4N (of which a list of specific risks is highlighted within).

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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