

# Alpha HPA Ltd

## (A4N \$0.40) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Steven Clark	28 <sup>th</sup> June 2022	\$1.05/sh

## Precursor Production Facility Tour

### Event

We recently attended a tour of the Stage 1 Precursor Production Facility (PPF) component of A4N's HPA First Project, located adjacent to chemical counterparty Orica Ltd's (ORI.ASX) Yarwun Facility within the Gladstone State Development Area. The PPF will initially produce ~350tpa of 5N+ purity Al-precursors, with A4N recently awarded A\$15.5m under the federal government's Critical Minerals Accelerator Initiative to further expand Al-precursor production capacity to ~400tpa and upscale the Stage 1 HPA and boehmite circuits. The PPF remains on schedule for commissioning in late SepQ'22 as a standalone facility prior to integration with the commercial full-scale plant, after which the PPF will serve as a dedicated 5N+ Al-Sulfate production unit.

### Recent product marketing updates continue to outline robust end user demand for A4N's expanded product suite across all target sectors.

Although the execution of maiden product offtake agreements has taken longer than originally anticipated, we remain encouraged by i) further third party validation provided by the cumulative award of A\$56m in federal government grant funding, ii) indicative end user demand for large commercial supply volumes and iii) continued end user recognition of A4N's best-in-class purity under recent product qualification and testwork. Successful execution under the PPF will be pivotal in converting end user engagement to signed offtake agreements, in our view.

### Impact

- We have maintained our modelled FY23 revenue/EBITDA contribution of A\$21m/A\$10m from the PPF under our 350tpa base case production scenario, reflecting the commencement of production from the PPF in early DecQ'22.
- A4N remains fully funded through to initial cash flows from the PPF (A\$35.5m capex) and partially funded for the full-scale plant; we forecast an FY22e exit cash position of A\$18m prior to the receipt of grant proceeds (A\$56m) and the potential exercise of 41.6m in-the-money unlisted options expiring in Jul'22 (~A\$11m).
- We retain our full-scale plant capex assumption of A\$308m (incl. contingency) in line with the Mar'20 DFS on the expectation that capex reductions arising from the partial diversion of HPA equivalent production (originally 10ktpa) to Al-precursor production capacity will be largely offset by cost inflation under the approaching BFS release.
- Our risk-adjusted NPV<sub>10%</sub> valuation reflects steady-state EBITDA of A\$250m, which we look to with an upward bias in light of an unmodelled uplift in margins anticipated from the production of A4N's 5N Al-precursor and boehmite offerings at commercial scale.

### Action

Speculative Buy rating and Price Target of \$1.05/sh maintained.

Alpha HPA Ltd	Year End 30 June	
Share Price	0.40	A\$/sh
Price Target	1.05	A\$/sh
Valuation	1.03	A\$/sh

Shares on Issue	796	m
Market Capitalisation	318	A\$m
Enterprise Value	300	A\$m
Cash (Jun'22e)	18	A\$m
Debt (Jun'22e)	Nil	A\$m
Largest Shareholder	Norman Seckold	8.5%

Production Forecast	2023F	2024F	2025F
4N+ HPA (kt)	-	5.2	9.2
5N+ Al-Precursors (kt)	0.29	0.35	0.35

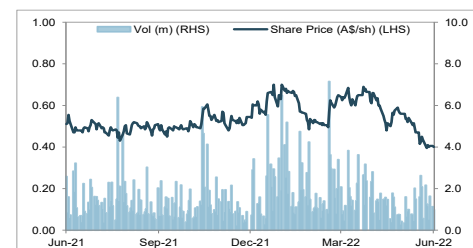
Assumptions	2023F	2024F	2025F
4N+ HPA Price (US\$/kg)	20	20	23
Operating Costs (US\$/kg)	0.0	6.5	6.5
AUD/USD (x)	0.73	0.74	0.74

Key Financials	2023F	2024F	2025F
Revenue (A\$m)	21	165	304
EBITDA (A\$m)	11	118	222
NPAT (A\$m)	(8)	63	131
Cashflow (A\$m)	(7)	73	149

EPS (A\$/sh)	(0.01)	0.08	0.17
EV/EBITDA (x)	na	4.2	1.4
EV/EBIT (x)	na	4.6	1.5

DPS (A\$/sh)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

### Share Price Chart



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This analyst declares that he has a beneficial interest in Alpha HPA Ltd.

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# Alpha HPA Ltd

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### Key Catalysts

The execution of initial large volume offtake agreements remains the most material catalyst for a rerating, in our view. In the near term, we anticipate the release of a bankable feasibility study incorporating final commercial allocations across A4N's expanded product suite, to be followed by a final investment decision for the full-scale project and project financing. The commencement of commercial production from the PPF also presents as a key near-term project de-risking milestone.

### Discussion

We were particularly impressed with the scale of the PPF and accordingly the implied scale of the full-scale operations at the HPA First Project. The construction of the PPF has advanced to lock-up stage, with the mechanical installation of the front-end solvent extraction modules and crystallisation phase of the flowsheet approaching completion at the time of our site visit. Construction of the drying, calcination and milling phases of the PPF flowsheet is guided for completion in H2 CY22.

Risk to achievement of the originally guided SepQ'22 commissioning of the PPF in the face of global supply chain issues has been largely mitigated by the securing of long lead items immediately subsequent to A4N's Jun'21 placement. Successful scale up to the initial production of ~350tpa under the PPF presents as a key de-risking milestone through the lens of end users and project financiers, particularly considering the scale up from demonstration to PPF scale will be greater than the scale up from PPF to full-scale operations.



Source: Euroz Hartleys

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*Solvent extraction module installation, source: Euroz Hartleys*

Whilst modest as a standalone facility in terms of free cash generation, we continue to see significant value in the capacity of the PPF to immediately service demand for A4N's 5N Al-precursors and establish market share in advance of initial production from the full-scale plant. The PPF will utilise the same suppliers for feedstock (Rio Tinto Ltd) and process reagents (Orica Ltd) as the full-scale plant, 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 Yarwun facility).

Noting the production of both Al-Nitrate and Al-Sulfate excludes the drying, calcination and milling phases of the flowsheet used to produce HPA powder and pellets, we estimate that production of Al-precursors at commercial scale will displace originally guided HPA production at a ratio of ~6.5:1 at a comparatively lower unit cost (i.e. diversion of 1.0kt of HPA equivalent capacity equates to an additional 6.5kt of precursor capacity).

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 the commercial scale production of Al-precursors. Consequently, we view the approaching release of a BFS for the full-scale project as a material catalyst.

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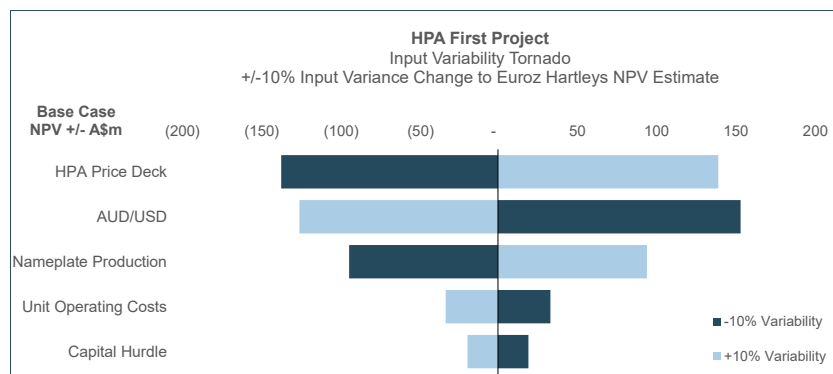
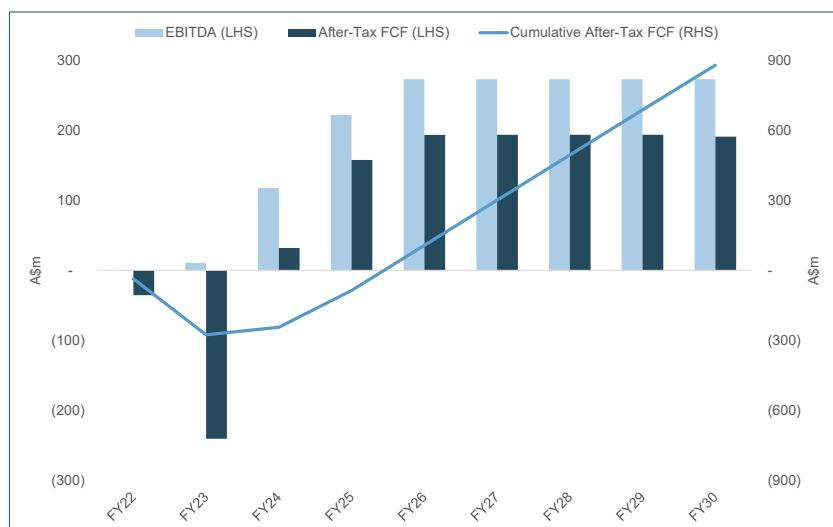
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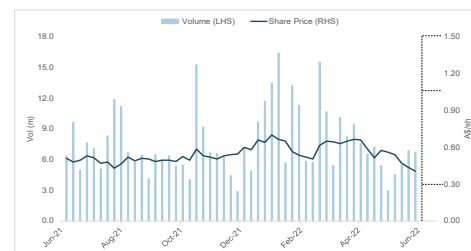
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## Key Variables

AUD/USD (x)	Weighted avg. HPA/Boehmite/Precursor Basket Price (US\$/kg)									
	12.5	15.0	17.5	20.0	22.5	25.0	27.5	30.0	32.5	35.0
0.76	0.30	0.44	0.58	0.73	0.87	1.01	1.16	1.30	1.44	1.59
0.75	0.31	0.45	0.60	0.74	0.89	1.03	1.18	1.32	1.47	1.62
0.74	0.32	0.47	0.61	0.76	0.91	1.06	1.20	1.35	1.50	1.64
0.73	0.33	0.48	0.63	0.78	0.93	1.08	1.23	1.38	1.52	1.67
0.72	0.34	0.50	0.65	0.80	0.95	1.10	1.25	1.40	1.55	1.70
0.71	0.36	0.51	0.66	0.82	0.97	1.12	1.28	1.43	1.58	1.74
0.70	0.37	0.52	0.68	0.84	0.99	1.15	1.30	1.46	1.61	1.77
0.69	0.38	0.54	0.70	0.86	1.01	1.17	1.33	1.49	1.64	1.80
0.68	0.40	0.56	0.72	0.88	1.04	1.20	1.36	1.52	1.68	1.84



## Our Share Price Sensitivity



## Our Market Sensitivity

Price Target: \$1.05/sh

Valuation: \$1.03/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: \$1.05/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's HPA First Project represents the commercialisation of the production of ~10ktpa equivalent of high purity alumina (HPA) and related high purity precursor products using A4N's proprietary licenced solvent extraction and HPA refining technology. The disruptive, low-carbon process technology provides for the extraction and purification of aluminium from an industrial feedstock to produce 4N (>99.99% purity) alumina and 5N (>99.999% purity) for sale into the lithium-ion battery and LED lighting industry.

## Disclaimer

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# Alpha HPA Ltd

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Market Statistics				Year End 30 June			
Share Price	0.40	A\$/sh	<b>Directors</b>				
Issued Capital			Norman Seckold	Chairman			
Fully Paid Ordinary	796	m	Rimas Kairatis	MD			
Options	85	m	Peter Nightingale	Director			
<b>Total Dil. FP Ord</b>	<b>880</b>	<b>m</b>	Justin Werner	Director			
			Anthony Sgro	NED			
			Cam Peacock	NED			
Market Capitalisation	318	A\$m	<b>Substantial Shareholders</b>				
Enterprise Value	300	A\$m	Norman Seckold	8.5%			
Cash (Jun'22e)	18	A\$m	Regal Funds	7.5%			
Debt (Jun'22e)	Nil	A\$m					
Asset Valuation		A\$m	A\$/sh				
HPA First Project (Risk Adjusted 80%)		824	0.94				
Corporate Overheads		(18)	(0.02)				
Cash (Jun'22e)		74	0.08				
ITM Options		22	0.03				
<b>Total</b>		<b>902</b>	<b>1.03</b>				
Forecast Production (A\$m)		2021A	2022F	2023F	2024F		
4N+ HPA Production	kt	0.0	0.0	0.0	5.2		
5N+ AI Precursors	kt	0.00	0.00	0.29	0.35		
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		
Ratio Analysis (A\$m)		2021A	2022F	2023F	2024F		
CF (A\$m)		-8	-10	-7	73		
CFPS (A\$/sh)		-0.98	-0.01	-0.01	0.08		
Earnings (A\$m)		-8	-7	-8	63		
EPS (A\$/sh)		-0.97	-0.01	-0.01	0.08		
Enterprise Value (A\$m)		293	434	467	448		
EV/EBITDA (x)		na	na	na	4.2		
EV/EBIT (x)		na	na	na	4.6		
Net Debt (A\$m)		-50.3	-75.7	142.6	122.9		
ND/(ND + Equity) (%)		na	na	57%	38%		
EBIT Margin (%)		na	na	9%	59%		
ROE (%)		-17%	-9%	-8%	31%		
ROA (%)		-16%	-9%	-3%	16%		
Dividends (A\$/sh)		0.0	0.0	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)		2021A	2022F	2023F	2024F		
(+) Sales revenue		-	-	21	165		
(+) Interest income		0	-	-	-		
(+) Other revenue		1	1	-	-		
<b>Total Revenue</b>		<b>1</b>	<b>1</b>	<b>21</b>	<b>165</b>		
(-) Costs of production		-	(0)	(10)	(47)		
(-) Corporate overheads		(3)	(8)	(8)	(10)		
(-) D&A		-	-	(1)	(10)		
(-) Other		(7)	-	-	-		
<b>EBITDA</b>		<b>(8)</b>	<b>(7)</b>	<b>3</b>	<b>108</b>		
<b>EBIT</b>		<b>(8)</b>	<b>(7)</b>	<b>2</b>	<b>98</b>		
(-) Interest Expense		-	-	(10)	(10)		
<b>NPBT</b>		<b>(8)</b>	<b>(7)</b>	<b>(8)</b>	<b>88</b>		
(-) Minority Interest		-	-	-	-		
<b>NPBT (ex-min.)</b>		<b>(8)</b>	<b>(7)</b>	<b>(8)</b>	<b>88</b>		
(-) Tax		-	-	-	(25)		
<b>Net Profit</b>		<b>(8)</b>	<b>(7)</b>	<b>(8)</b>	<b>63</b>		
Cash Flow (A\$m)		2021A	2022F	2023F	2024F		
Net Profit		(8)	(7)	(8)	63		
(+) Working Capital Adj.		-	-	-	-		
(+) D&A		-	-	1	10		
(+) Tax Expense		-	-	-	25		
(-) Tax Paid		-	-	-	(25)		
(+/-) Other		(0)	(3)	-	-		
<b>Operating Cashflow</b>		<b>(8)</b>	<b>(10)</b>	<b>(7)</b>	<b>73</b>		
(-) Capex & Development		(0)	(23)	(261)	(53)		
(-) Exploration		-	-	-	-		
(+/-) Other		-	-	-	-		
<b>Investing Cashflow</b>		<b>(0)</b>	<b>(23)</b>	<b>(261)</b>	<b>(53)</b>		
(+) Equity Issues		51	-	50	-		
(+) Loan Drawdown		-	-	200	-		
(-) Loan Repayment		-	-	-	-		
(-) Other		-	58	-	-		
<b>Financing Cashflow</b>		<b>51</b>	<b>58</b>	<b>250</b>	<b>-</b>		
<b>BoP Cash Balance</b>		<b>8</b>	<b>50</b>	<b>76</b>	<b>57</b>		
(+/-) Net Cashflows		42	25	(18)	20		
(+/-) FX Adj.		-	-	-	-		
<b>EoP Cash Balance</b>		<b>50</b>	<b>76</b>	<b>57</b>	<b>77</b>		
Balance Sheet (A\$m)		2021A	2022F	2023F	2024F		
<b>Assets</b>							
Cash		50	76	57	77		
Current Receivables		0	1	4	33		
Other Current Assets		-	-	-	-		
Non-Current Assets		-	-	248	293		
<b>Total Assets</b>		<b>51</b>	<b>76</b>	<b>310</b>	<b>403</b>		
<b>Liabilities</b>							
Borrowing(s)		-	-	200	200		
Current Accounts Payable		1	2	2	2		
Other Liabilities		-	-	-	-		
<b>Total Liabilities</b>		<b>1</b>	<b>2</b>	<b>202</b>	<b>202</b>		
<b>Net Assets</b>		<b>50</b>	<b>75</b>	<b>108</b>	<b>201</b>		

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