Neometals has strong valuation upside according to research report

Neometals Ltd (ASX:NMT) is significantly undervalued and has strong valuation upside, according to a research report from Arlington Group Asset Management Limited.

The London-based investment group, which was engaged by Neometals, has applied a fair net asset value of $1.43 on the stock, around four times trading levels of $0.35 to $0.36.

Arlington states in the report that separating Neometals "into its constituent parts would lead to better understanding and a higher valuation".

The parts referred to are the company's mining assets and its technology assets.

READ: Neometals evaluates direct shipping of titanium and vanadium

The following is an extract from the report:

Buy a MiningCo. get a TechCo. for free

Following its reinvention as a battery materials company, Neometals is not widely owned by institutional investors and, as a result, a lot of its important developments have gone under the radar.

We believe that the market sees it as a holding company with a minority share of the Mt Marion lithium mine and a bunch of early-stage tech developments.

We believe a simple reorganisation and separation of the tech and mining assets can better showcase the company for what it is, a MiningCo. with a holding in a world-class lithium mine and exciting TiO2 and LiOH projects; and a world-class battery materials TechCo. with significant development and growth potential, which should trade on a substantially higher multiple.

Mining is the past and the present

NMT’s 13.8% share in the Mt Marion lithium mine should continue to yield strong cash flow for many years, potentially allowing NMT to develop the Barrambie titanomagnetite DSO project and continue to develop the associated TiO2 project.

The LiOH plant is a positive addition to this.

But Tech is the future
However, we believe that the company's unfancied tech assets are the key.

While not yet commercially proven, we believe that the battery recycling tech could be a game-changer, and it has a developing tech royalty business which could become a good earner.

**Split would realise better multiples**

The market is willing to attribute very different multiples to mining and tech stocks.

Highly capital intensive and cyclical mining gets low multiples, and tech, with low capital int., high margins and growth potential, can derive much higher multiples.

While TechCo. is small at this stage we believe it has significant value upside as a standalone.

**Strong valuation upside**

We value Neometals on a Sum of the Parts basis using DCF valuations. Our NAV (net asset value) is A$1.90 and we apply a 25% Conglomerate discount to give a fair value of A$1.43.

We believe that the stock is significantly undervalued and that a separation into its constituent parts would lead to better understanding and a higher valuation.

**Investment summary**

The company that emerged from the failure of the Meekatharra gold project is a totally different animal to the one that went in, but this has been largely unnoticed by investors, in our view.

Neometals is now an exciting project developer with a good net cash position, a 13.8% share of earnings from a world-class lithium mine, integrated lithium and titanium chemical opportunities, and interests in exciting hydrometallurgical technologies for its emerging royalties business.

However, we believe that the sheer number and diversity of the projects underway at Neometals is one of the factors putting investors off and we believe that a simple splitting of the company into a mining entity and a tech entity will result in a significant improvement in the market perception, and hence the valuation, of the stock.

**READ: Neometals progresses downstream integrated lithium supply chain strategy**

We believe that Neometals should split into:

- **MiningCo.**, holding the company's 13.8% share in the Mt Marion Lithium mine, its 100% share in the Kalgoorlie LiOH project, and 100% share in the Barrambie project, where we see DSO titanomagnetite as potential for early cash flow ahead of full-scale development of an integrated titanium dioxide
operation where a PFS indicates production costs at the bottom of the global
cost curve.

- **TechCo.** which would hold the company's tech and royalty assets.

We believe that the company's battery recycling project is the most exciting of
its Tech projects, given its potential to yield low-cost cobalt as well as other
metals.

The company also has projects underway in lithium, via its EL® LiOH process,
direct lithium extraction from brines and development of lithium titanate (LTO)
anode materials, which we believe could all be game-changers in their own
right.

The royalty part of the business (Alphamet) focuses on licensing of the
company’s proprietary hydrometallurgical technologies to producers and also
has significant new business development potential, in our view.
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Contact us +61 (0)2 9280 0700 action@proactiveinvestors.com.au

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