

20/20 VISION AT JAGUAR

CTM.ASX | CENTAURUS METALS LIMITED | MATERIALS

PRICE
A\$ 1.09

TARGET PRICE
A\$ 1.80
(FROM A\$ 1.50)

RECOMMENDATION
SPECULATIVE BUY
(FROM SPECULATIVE BUY)

ANALYST
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Event

CTM recently released an updated resource for the Jaguar Nickel Project. We are resuming formal coverage of CTM subsequent to a change in covering analyst.

Impact

CY22 resource growth a significant beat on expectations. The updated global Jaguar MRE has increased to 108mt @ 0.87% Ni for 938kt of contained nickel (+28% on a contained nickel basis), with M&I resources increasing to 86mt @ 0.85% Ni for 730kt of contained nickel. A targeted uplift in M&I resources to ~500kt of contained nickel was previously guided by CTM. We highlight that >500kt of contained nickel in the M&I categories are located within 200m of surface, while >30% of the high-grade component of the updated MRE (432kt @ 1.51% Ni at a 1.0% Ni cut-off) is located within 100m of surface, providing high-grade optionality during the project payback period.

Nickel sulphate production of 20ktpa over a +20-year mine life comfortably underpinned at 2.7mtpa. We have updated our assumed mineral inventory to 70mt @ 0.87% Ni for 562kt Ni, which supports a 17-year mine life at higher average throughput rates of ~3.3mtpa for average annual nickel sulphate production of +23ktpa. We have increased our assumed capital hurdle to US\$450m (prev. US\$288m) while also lifting modelled operating costs in recognition of industry cost inflation, resulting in LOM average AISC of US\$4.70/lb. The impact to our 60% risk-weighted (prev. 50%) NPV_{10%} valuation has largely been offset by our current nickel price deck (US\$8.25/lb LT vs. US\$7.50/lb previously), in addition to an uplift in our assumed nickel sulphate premium to US\$0.80/lb in alignment with current premiums received for nickel sulphate.

Leveraged nickel exposure. Our valuation lifts to A\$3.30/sh on assumption of the spot nickel price (US\$11.50/lb) over the long term. The updated MRE positions Jaguar as the sixth-largest nickel sulphide project controlled by an ASX-listed company, and the largest nickel sulphide resource held by an ASX-listed company ex-BHP, assuming completion of BHP's proposed takeover of OZL. CTM presents as a call option on nickel prices, with the Jaguar project capable of generating avg. annual EBITDA of +A\$420m (avg. FCF ~A\$330m) over FY27-32 on our nickel price deck. Whilst acknowledging a comparatively lower resource grade to domestic ASX-listed peers (although noting Jaguar resources are primarily open pit) and perceived jurisdiction risk, CTM continues to trade at an excessive discount to its peers on an EV/Resource basis at ~A\$400/t (peer group avg: ~A\$1,200/t).

Offtake discussions remain underway. Vale holds first rights to 100% of nickel concentrate offtake under the original Jaguar Project acquisition agreement, requiring conversion to a nickel sulphate offtake agreement ahead of the DFS release. Vale recently executed a long-term nickel sulphate supply agreement with General Motors, under which Vale will supply ~25ktpa of battery grade nickel sulphate from its proposed facility in Bécancour, Quebec. A potential strategic partnership with an OEM involving product offtake and project financing presents as another conceivable offtake and financing route, particularly given the scale and ESG credentials of the Jaguar Project.

Action

Speculative Buy rating maintained, Price Target increased to \$1.80/sh (prev. \$1.50/sh). Beyond the execution of binding nickel sulphate offtake agreements, the Jaguar DFS and maiden reserve release are key approaching catalysts (due mid-CY23), with FID targeted in late CY23. Drilling remains underway at Jaguar with 10 rigs currently on site.

Market Statistics

Share Price	1.09	A\$/sh
Price Target	1.80	A\$/sh
Valuation	1.80	A\$/sh

Issued Capital		
Fully Paid Ordinary	427.1	m
Unlisted Options	9.5	m
Total Dil. FP Ord	436.6	m

Market Capitalisation	476	A\$m
Enterprise Value	429	A\$m
Cash (Sep'22)	47	A\$m
Debt (Sep'22)	Nil	A\$m

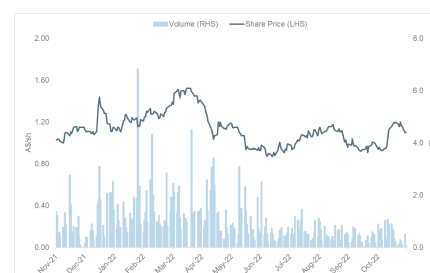
Directors

Dider Murcia	Chair
Darren Gordon	MD
Bruno Scarpelli	Dir
Natalia Streltsova	NED
Mark Hancock	NED
Chris Banasik	NED

Substantial Shareholders

McCusker Holdings	14.0%
Sprott	9.1%
Regal	5.9%
Dundee	5.3%

Performance



Source: IRESS

Analysis

The May'21 Jaguar Value-Add Scoping Study (VASS) outlined the production of +20ktpa of battery-grade nickel sulphate over an initial 13-year mine life through the inclusion of a pressure oxidation circuit, providing a material uplift in nickel recoveries and product payability relative to the originally proposed sulphide concentrate product. The Value-Add Scoping Study incorporated a now-dated Indicated and Inferred MRE of 58.9mt at 0.96% Ni for 562kt Ni. Subsequent to the release of the Value-Add Scoping Study, the global Jaguar MRE has grown by +67% on a contained nickel basis, with Measured and Indicated Resources currently comprising 78% of the updated global Jaguar MRE. Further clarity on mine sequencing incorporating the updated MRE is due in CY23 under the DFS release.

Overall resource growth on a contained nickel basis subsequent to the Dec'21 MRE update has been driven by an uplift in pit shell nickel price to US\$22,000/t from US\$20,000/t (+108kt Ni), step-out and extensional resources (+84kt Ni) and changes to bulk density (+16kt Ni). The Onça Preta and Jaguar South deposits have seen the highest growth on an absolute basis having added 95kt and 59kt of contained nickel respectively, while grade has declined by 19% and 1%. The Jaguar Northeast deposit has also seen meaningful growth having increased by 50kt Ni in tandem with an 11% decline in grade.

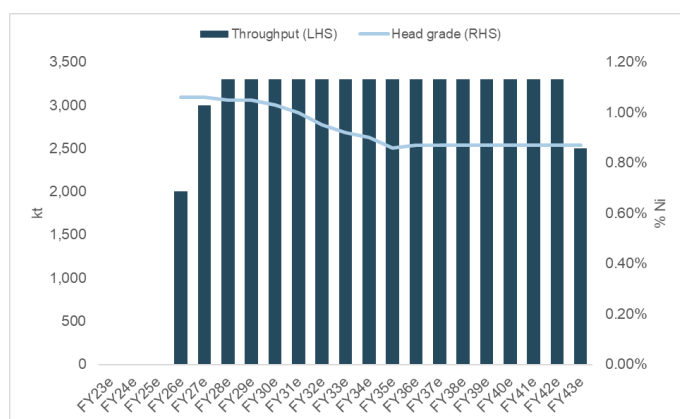
Figure 1: Nov'22 Jaguar MRE update by deposit

Deposit	Nov'22 MRE			Dec'21 MRE			% Change		
	Tonnes	Grade	Contained Ni	Tonnes	Grade	Contained Ni	Tonnes	Grade	Contained Ni
	Mt	Ni %	kt	Mt	Ni %	kt	Mt	Ni %	kt
Jaguar South	34.6	0.92	316.5	27.6	0.93	257.8	25%	-1%	23%
Jaguar Central	12.5	0.81	100.4	12.1	0.90	109.1	3%	-10%	-8%
Jaguar North	3.2	1.15	36.6	3.2	1.12	35.4	0%	3%	3%
Jaguar Central North	14.2	0.62	88.1	12.0	0.63	76.0	18%	-2%	16%
Jaguar Northeast	16.8	0.75	126.2	9.1	0.84	76.7	85%	-11%	65%
Jaguar West	8.7	0.72	63.1	7.3	0.74	54.0	19%	-3%	17%
Jaguar Deposits	89.9	0.81	730.9	71.3	0.85	609.0	26%	-5%	20%
Onça Preta	14.2	1.23	173.9	5.2	1.52	78.8	173%	-19%	121%
Onça Rosa	1.9	0.98	18.6	2.1	1.28	26.6	-10%	-23%	-30%
Tigre	2.0	0.77	15.1	2.0	0.82	16.2	0%	-6%	-7%
Total	108.0	0.87	938.5	80.6	0.91	730.6	34%	-4%	28%

Source: Centaurus Metals Ltd, Euroz Hartleys edits

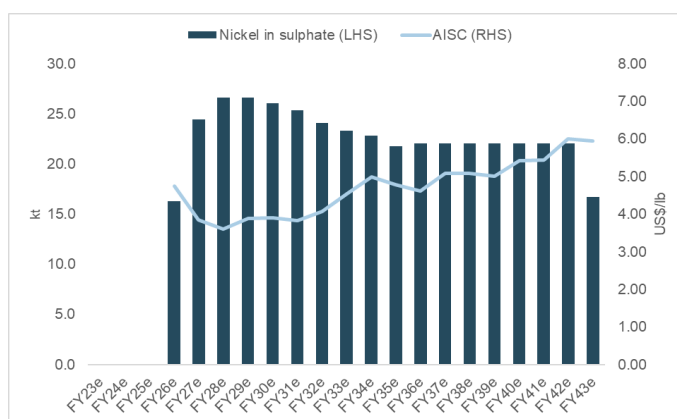
Consistent with the conversion of resources to the production target of 45.0mt at 0.80% Ni for 362kt Ni under the Value-Add Scoping Study, we have adopted a resource-to-reserve conversion ratio of 65% in arriving at an assumed mineral inventory of 70mt @ 0.87% Ni for 609kt Ni based on the Nov'22 MRE. Low-grade open pit feed will be processed by an ore-sorter circuit at the ROM, which under the Value-Add Scoping Study, provided an ~11mt (25%) reduction in mill feed for a ~0.20% Ni (+26%) uplift in overall head grade to 1.01% Ni over the originally contemplated 13-year mine life. We assume >25% of mined material is beneficiated via ore sorting for total mill feed of 55mt at an average head grade of 0.95% Ni over our modelled 17-year mine life.

Figure 2: EH throughput and head grade assumptions



Source: Euroz Hartleys estimates

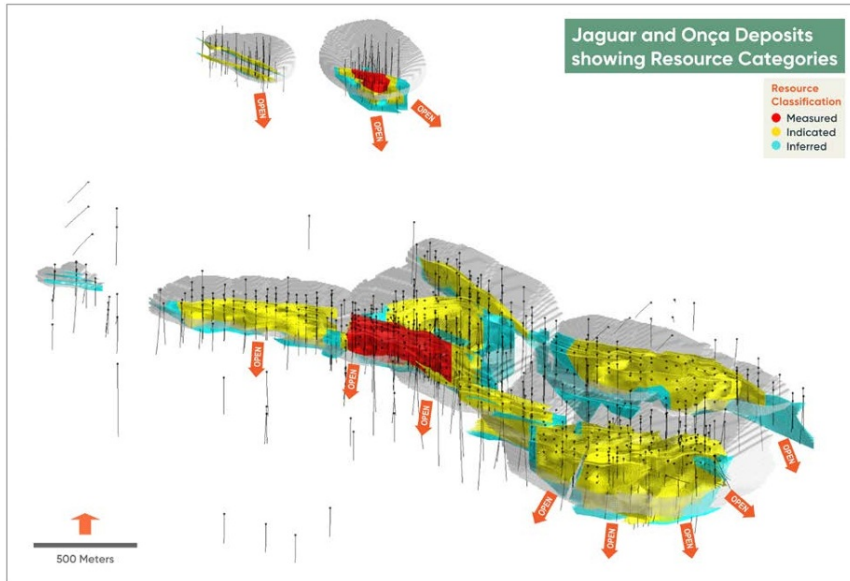
Figure 3: EH nickel sulphate production and AISC assumptions



Source: Euroz Hartleys estimates

The Jaguar South, Jaguar Central and Onça Preta deposits deliver the bulk of the mine plan in the early years of the planned operation at Jaguar, with Measured resources of 14mt @ 1.06% Ni more than underpinning the project payback period for an initial +5 years of mine life, or +4 years on our higher assumed throughput rates. Potential exists for throughput rates to exceed nominal capacity of 2.7mtpa contemplated under the Value-Add Scoping Study, which is the minimum design rate based on the hardest ore from the Jaguar South deposit (Ball Work Index of 17.4kWhr/t). While contingent on plant feed, we anticipate throughput rates to average ~3.3mtpa (Fig. 2) on the incorporation of softer (lower BWI) ore as the proportion of plant feed from deposits to the north of the Jaguar project increases (i.e. Jaguar North deposit BWI: 10kWhr/t).

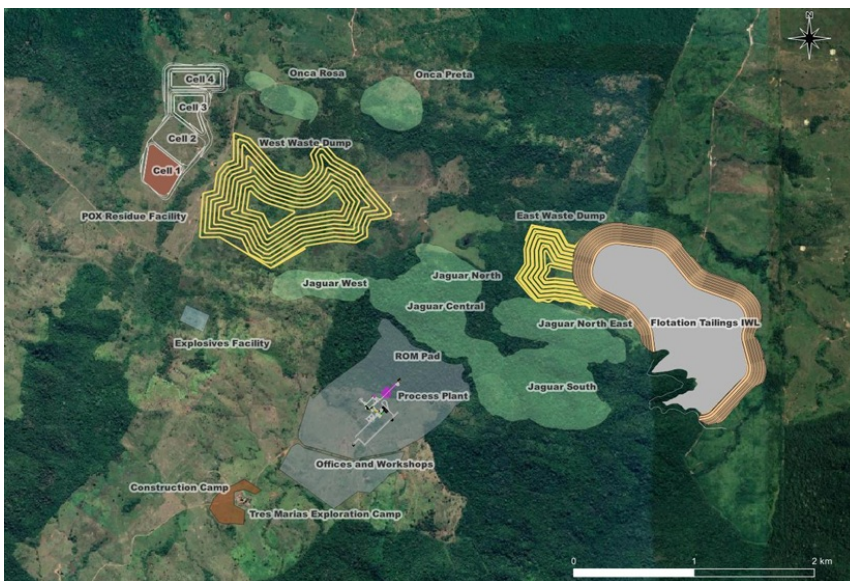
Figure 4: Jaguar and Onça deposit resource categories



Source: Centaurus Metals

Subsequent to resource updates and pit optimisation work, the separate Jaguar pits outlined in the Value-Add Scoping Study are guided to coalesce into a single large pit with a strike extent of up to +3km, 1km width and depths that extend over +300m. A higher assumed strip ratio of 7.5:1 (Value Add Scoping Study: 6.5:1) has been guided.

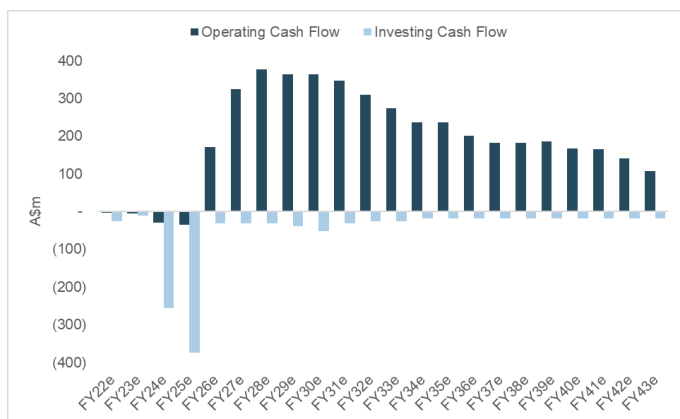
Figure 5: Jaguar pits coalescing into one single pit



Source: Centaurus Metals

Following the continued success of resource growth at the Jaguar Nickel Project (the global MRE has increased by +80% since the maiden Jun'20 MRE, averaging additions of 165ktpa on a contained nickel basis), an uplift in Jaguar resources to 1 million tonnes of contained nickel is targeted in CY23. Mineralisation at all Jaguar deposits remains open both at depth and locally along plunge and strike, with the balance of FY23 drilling to focus on extensional and step-out targets. Noting i) the current global MRE will underpin the CY23 Jaguar DFS and ii) assumed right-sizing of Jaguar nickel sulphate output at ~20ktpa, we expect an emerging trade-off in allocating resources to growing resources beyond 1 million tonnes of contained nickel.

Figure 6: EH Op/Inv cash flow forecasts



Source: Euroz Hartleys estimates

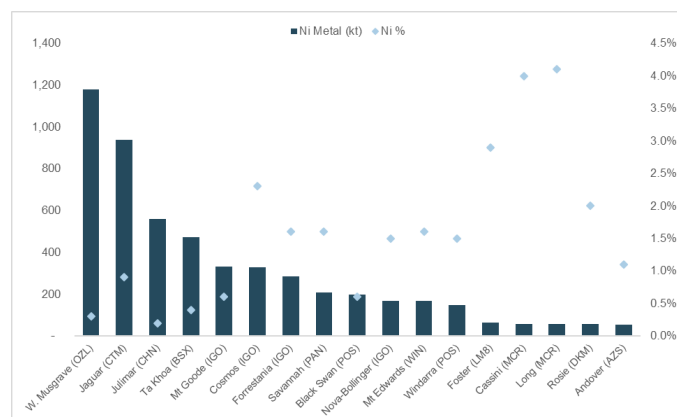
Figure 7: Val sensitivity to nickel price and sulphate premium

A\$/sh	Nickel Price (US\$/lb)						
	6.0	7.0	8.0	9.0	10.0	11.0	12.0
Nickel Sulphate Premium (US\$/lb)	0.50	0.61	1.07	1.54	2.01	2.48	2.95
0.60	0.65	1.12	1.59	2.06	2.52	2.99	3.46
0.70	0.70	1.17	1.64	2.10	2.57	3.04	3.51
0.80	0.75	1.22	1.68	2.15	2.62	3.09	3.55
0.90	0.79	1.26	1.73	2.20	2.67	3.13	3.60
1.00	0.84	1.31	1.78	2.24	2.71	3.18	3.65
1.10	0.89	1.36	1.82	2.29	2.76	3.23	3.69
1.20	0.93	1.40	1.87	2.34	2.81	3.27	3.74

Source: Euroz Hartleys estimates

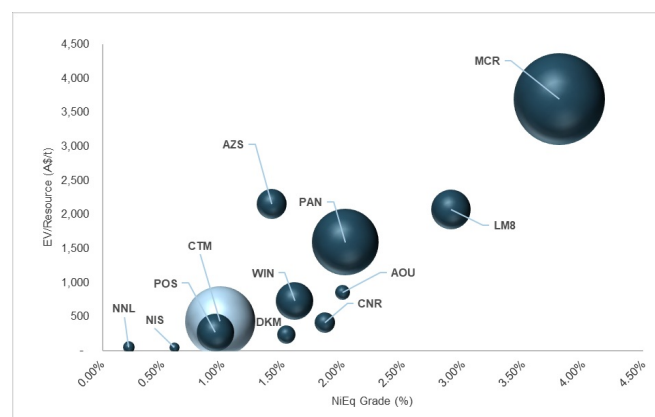
The updated MRE positions Jaguar as the sixth-largest nickel sulphide project controlled by an ASX-listed company by resource scale, and the second largest nickel sulphide resource held by an ASX-listed company ex-BHP prior to the completion of BHP's proposed takeover of OZL. Whilst acknowledging a comparatively lower resource grade to domestic ASX-listed peers (although noting Jaguar resources are primarily open pit) and perceived jurisdiction risk, we highlight that CTM continues to trade at an excessive discount to its peers on an EV/Resource basis at ~A\$400/t (peer group avg: ~A\$1,200/t). We see potential for CTM to re-rate upwards on execution of binding nickel sulphate offtake agreements and continued project de-risking as the company approaches its mid-CY23 DFS and maiden reserve release.

Figure 8: Second-largest nickel resource ex-BHP (currently)



Source: Company Reports, Euroz Hartleys estimates

Figure 9: Cheap on an EV/Resource basis, below peer group avg.



Source: Company Reports, Euroz Hartleys estimates

Most recently guided project timelines reflect the delivery of the Jaguar DFS in mid-CY23 ahead of project FID in late CY23. Our valuation assumes first production in H1 CY26 in line with company guidance.

Market Statistics			
Share Price	1.09	A\$/sh	
Issued Capital			
Fully Paid Ordinary	427.1	m	
Unlisted Options	9.5	m	
Dil. FP Ord	436.6	m	
Market Capitalisation			
Market Capitalisation	476	A\$m	
Enterprise Value	429	A\$m	
Cash (Sep'22)	47	A\$m	
Debt (Sep'22)	Nil	A\$m	
Substantial Shareholders			
McCusker Holdings	14.0%		
Sprott	9.1%		
Regal	5.9%		
Dundee	5.3%		
Harmanis	5.2%		

Valuation			
	Risking	A\$m	A\$/sh
Jaguar Nickel Project	60%	675	1.55
Undeveloped Resources	100%	50	0.11
Jambreiro Iron Ore Project	100%	50	0.11
Corporate Overheads	100%	(36)	(0.08)
Cash		47	0.11
Total		786	1.80
Price Target (1.0x NAV, Rounded)			1.80

Model Assumptions			
	2024F	2025F	2026F
Commodity Prices / FX			
Nickel (US\$/lb)	8.50	8.25	8.25
Nickel Sulphate Premia (US\$/lb)	0.80	0.80	0.80
Zinc (US\$/lb)	1.15	1.15	1.15
Cobalt (US\$/lb)	25.0	25.0	25.0
AUD/USD (x)	0.73	0.74	0.74
Production			
Nickel in concentrate (kt)	0.0	0.0	17.3
Nickel in sulphate (kt)	0.0	0.0	16.3
Mixed sulphide precipitate (kt)	0.0	0.0	7.8
Costs			
C1 Cost (US\$/lb)	0.00	0.00	4.33
AISC (US\$/lb)	0.00	0.00	4.74

Ratio Analysis			
	2024F	2025F	2026F
Cash Flow (A\$m)	-30	-35	172
CFPS (A\$/sh)	-0.07	-0.08	0.40
CF Ratio (x)	-16.0	-13.7	2.8
Earnings (A\$m)			
Earnings (A\$m)	-30	-35	138
EPS (A\$/sh)	-0.07	-0.08	0.32
P/E (x)	na	na	3.5
EV/EBITDA (x)			
EV/EBITDA (x)	na	na	1.9
EV/EBIT (x)			
EV/EBIT (x)	na	na	2.3
Net Debt (A\$m)			
Net Debt (A\$m)	-80.4	328.9	189.4
ND/(ND + Equity) (%)	-34%	54%	32%
EBIT Margin (%)	na	na	42%
ROE (%)	-9%	-12%	34%
ROA (%)	-4%	-5%	21%

Profit & Loss			
Yr End 31 December (A\$m)	2024F	2025F	2026F
(+) Revenue	0	0	439
(+) Interest revenue	0	0	0
(+) Other revenue	0	0	0
Total Revenue	0	0	439
(-) Costs of production	0	0	(210)
(-) Corporate overheads	(5)	(10)	(10)
(-) D&A	0	0	(33)
(-) Other	0	0	0
EBITDA	(5)	(10)	219
EBIT	(5)	(10)	186
(-) Interest expense	(25)	(25)	(18)
NPBT	(30)	(35)	168
(-) Minority interest	0	0	0
NPBT (ex-min.)	(30)	(35)	168
(-) Tax	0	0	(30)
Net Profit	(30)	(35)	138
(+/-) Net abnormal	0	0	0
Net Profit After Abnormal	(30)	(35)	138

Cash flow			
Yr End 31 December (A\$m)	2024F	2025F	2026F
Net Profit	(30)	(35)	138
(+) Working Capital Adj.	0	0	0
(+) D&A	0	0	33
(+) Tax Expense	0	0	30
(-) Tax Paid	0	0	(30)
(+/-) Other	0	0	0
Operating Cashflow	(30)	(35)	172
(-) Capex & Development	(247)	(370)	(27)
(-) Exploration	(10)	(5)	(5)
(+/-) Other	0	0	0
Investing Cashflow	(257)	(375)	(32)
(+) Equity Issues	350	0	0
(+) Loan Drawdown	350	0	0
(-) Loan Repayment	0	0	(100)
(-) Dividends	0	0	0
(+/-) Other	0	0	0
Financing Cashflow	700	0	(100)
Net Cashflows	414	(409)	40
(+/-) FX Adj.	0	0	0
BoP Cash Balance	17	430	21
(+/-) Net Cashflows	414	(409)	40
(+/-) FX Adj.	0	0	0
EoP Cash Balance	430	21	61

Balance Sheet			
Yr End 31 December (A\$m)	2024F	2025F	2026F
Assets			
Cash	430	21	61
Current Receivables	1	1	1
Other Current Assets	0	0	0
Non-Current Assets	247	616	610
Total Assets	678	639	672
Liabilities			
Borrowings	350	350	250
Current Accounts Payable	6	6	6
Other Liabilities	4	4	4
Total Liabilities	360	360	260
Net Assets	318	278	412

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The companies and securities mentioned in this report, include:

Centaurus Metals Limited (CTM.ASX) | Price A\$1.09 | Target price A\$1.80 | Recommendation Speculative Buy;

Price, target price and rating as at 29 November 2022 (not covered)*

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