

# Centaurus Metals Ltd

## (CTM \$1.07) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Jon Bishop	13 <sup>th</sup> December 2021	\$1.50/sh ▲ from \$1.40/sh

### Updated Resource: Material Growth, More Open Pit = POX the Preferred Route

#### Event

CTMs has updated the Feb 2021 Resource delivering 30% increase to contained metal for its Jaguar Nickel Sulphide Project, Brazil

Maiden Resource booked for Tigre regional exploration target

Met testwork highlights consistent recoveries and suggest lower capex and opex likely for Pox flow sheet (lower temp and pressure required)

#### Impact

Indicated Resources now 54% (43.4mT @ 0.92%) of total 730.7kT Ni (80.6mT @ 0.91%)

Over 500kT sits within 200m of surface

Indicated Resource supports 20yrs of Mine Life but underscores our previously published view that the Project is of material size providing for development flexibility via economies of scale

Current fleet of 8 DD rigs & 1 RC rig joined by 3 more DD and another RC rig in Feb 2022 targeting final DFS Resource Sep Q'22

The updated Resource and on-going metallurgical testwork suggests that the POX processing route is the primary focus of the mid'FY23 DFS

We have upgraded Valuation to \$1.49/sh (from \$1.43/sh) for our blend of the Base Case & POX flow sheets (risked adj by 50%)

We set a revised \$1.50/sh Price Target (prev. \$1.40/sh) Price Target.

#### Action

We maintain our Speculative Buy recommendation

#### Key Catalysts

- On-Going Drilling (2021: 40km DD Resource ext. and infill; 25km RC/DD Regional exploration);
- Favourable outcome EIA/RIMA (Q3'22 approval) – critical pathway;
- Resource Update (Dec H FY'23) – Inferred conversion & grade;
- CTM is looking to realise Jambreiro Fe Project value via: offtake; financing; and development/JV through innovative non-dilutive funding and/or partnering options
- DFS (Mid FY'23);
- Nickel price and Resource sector macro.

Centaurus Metals Ltd	Year End 30 June	
Share Price	\$1.07	A\$/sh
Issued Capital		
Fully Paid Ordinary	343.7	m
Listed Opts (ex @ \$0.18/sh May'21)	-	m
Unlisted Options	12.2	m
Total Dil FP Ord	355.95	m
Market Capitalisation	373.7	A\$m
Enterprise Value	359.7	A\$m
Cash (est Dec 21)	14.0	A\$m
Debt	Nil	A\$m

#### Directors

D. Murcia	NE Chairman
D. Gordon	Mgr Director
B. Scarpelli	Ex Director
M. Hancock	NE Director
C. Banasik	NE Director

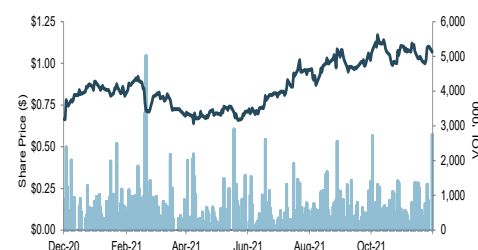
#### Substantial Shareholders

Top 20	59%
Dir & Mgt	4%

#### Company Details

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Email: office@centaurus.com.au  
Website: www.centaurus.com.au

#### Share Price Chart



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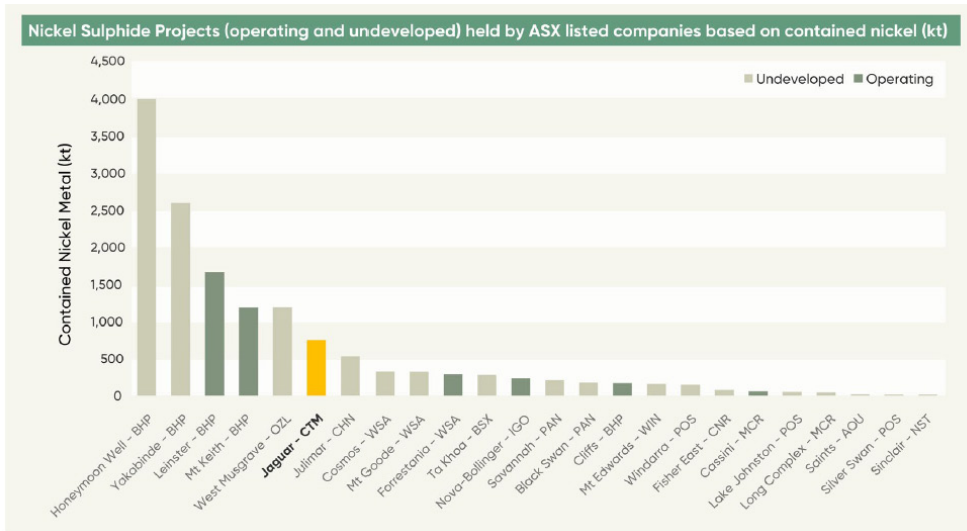
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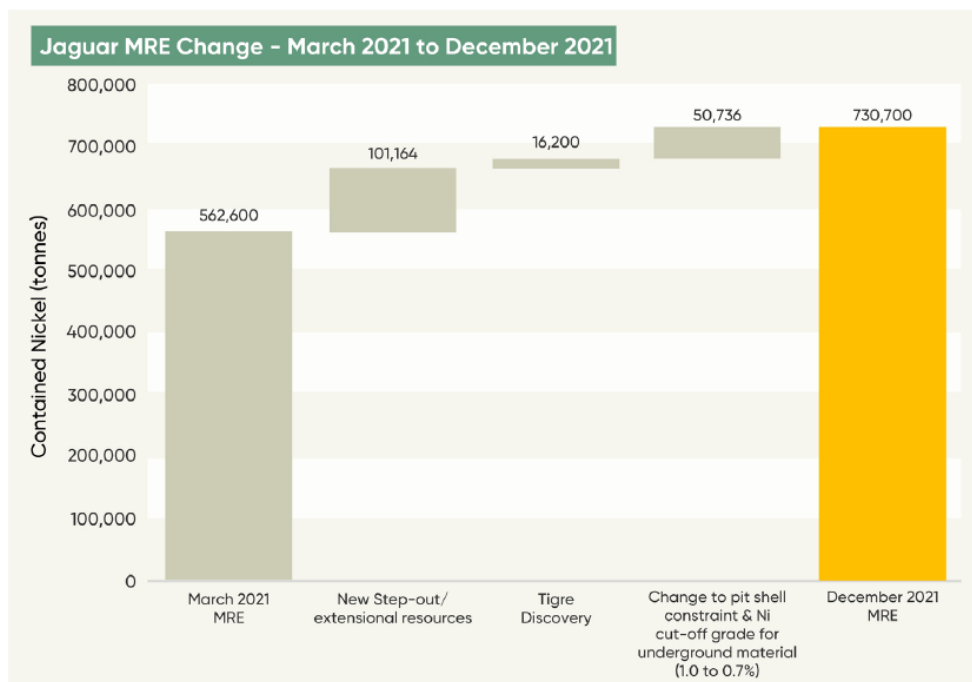
## Analysis

The updated Resource underscores the Jaguar Project’s size and scale potential. We note the current Resource Inventories vs its ASX listed peers:



Inventories have benefited materially from extensive infill and extensional drilling by a fleet that is now 8 DD rigs and 1x RC rig strong and that will grow further in the new CY to 11 and 2 respectively as the Company looks to finalise the DFS Resource by the Sep Q.

Key drivers beyond drill meters relate to growth to pit shells around resource blocks, lower UG cut-off grade. Notable growth came from extensional drilling (60% of the inc.) and a maiden Resource for Tigre:



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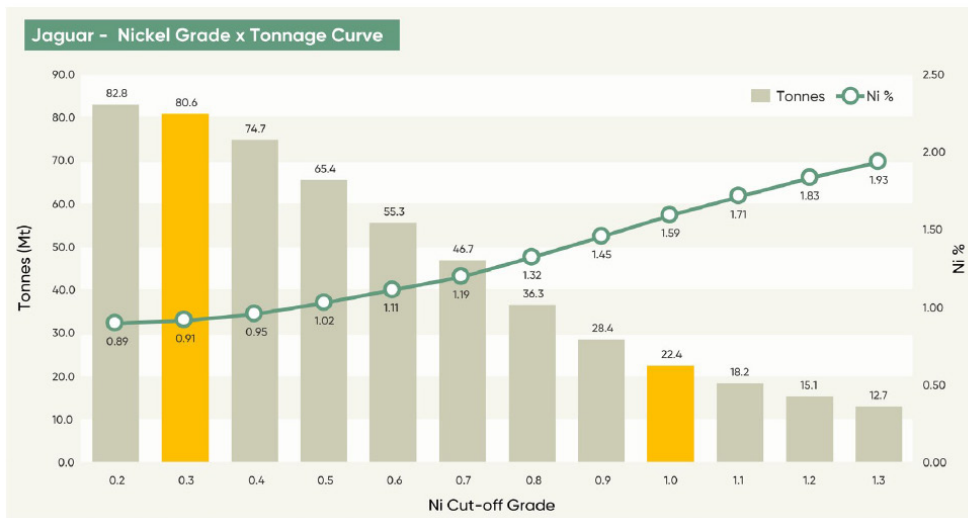
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Whilst we have made an attempt to quantify the impact of c170kT additional Ni metal to potential project valuation, we flag the importance of optimisation work around pit sequencing and timing of UG development to overall project economics.

Larger pit shells have introduced dilution (+20% to Indicated Resource av. grade) for the raw Resource calculation. Therefore mine sequencing will be a key sensitivity to overall project economics.

Highlighting the grade-tonnage curve and Resource block model (inc. in our Sensitivity page), it is reasonable to assume initial development will focus on the higher grade zones within each of the pits:



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### IMPACT TO VALUATION

We stress that we have taken a very simplistic approach to adjusting our SOTP valuation to account for the inventory growth: We have essentially extended LOM to exhaust total Indicated Resources (397kT) and kept av. head grade inline with av. Resource grade for conservatism.

All other parameters are kept per the existing Scoping Studies.

We have summarised updated key operating and financial metrics vs our last published numbers and the Base & Pox Scoping Studies (released Mar & May 2021) in the table below:

		EHL New	EHL last pub	Scoping	PoX Optimised
Pre-prod Capex	US\$m	178	178	178	288
Forex	US\$	0.75	0.75	0.75	0.75
Sustaining capex	US\$	240	138	138	213
Total Mined	mT			33	45
mined grade	Ni %			0.84	0.80
Throughput	mtpa	2.7	2.7	2.7	2.7
Availability	%	91.3	91.3	91.3	91.3
Total T Treated	mT	50	29.6	24	33.7
Grade	Ni %	0.9	1.1	1.1	1.01
Process Recovery	%	78-82	78	78	81.5
Production	kt pa	17-19	20	20	20
Total	kt	346	254	203	278
Total Sulphate	kt				262
Mine Life	Yrs	20	12	10	12.9
OPEX			45		
Open pit	US\$/t	20	20	18.1	19.6
Underground	US\$/t	60	60	50.5	47.5
Processing	US\$/t	15	15.0	11.3	28.0
By-Product Credit	US\$/t	-1.00	-1.00	-1.07	-0.5
AISC payable	US\$/lb	4.4	3.5	2.97	3.94
LT Ni Price	US/lb	8.0	8.0	7.5	7.5
Sulphate Premia	US/lb	0.5	0.5	0	0.5
Forex	US\$	0.75	0.75	0.75	0.75
Payability	%	75-98	75	75	98
Av EBITDA pa	A\$m	150-260	219	164	252
Tax Rate	%	15-35	20	15	15/34
NPV10	A\$m	524*-914	722	604*	1,108
Discount factor	%	50%	50%	na	na
EH Val NPV10 unrisksd	A\$m	388	361	319	457
Valuation	A\$m			388	

\*NB: NPV8

Beyond the 50% discount rate we apply to the blended NPV, there is clear upside via:

- changes to thru-put
- optimisation of pit design and mine sequencing
- financing structure (and WACC)
- optimisation of capex and opex

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Per the last point, we note recent releases from the Company regarding testwork and the positive outcomes in terms of pressure and temperature requirements.

The higher payability is a key driver for CTM pursuing a DFS for the PoX processing route; the upside coming via possible premiums being realised for Ni sulphate.

The Company has assumed US\$0.50/lb for the purpose of the Value Enhancement Study. However, we view it instructive to consider the leverage that growth to this sulphate market (in lock-step with the forecast EV battery demand growth) could deliver with improved net Ni pricing (above the LME benchmark):

NPV8	NPV8	US\$/lbs Nickel Sulphate Premia									
\$638.00	\$914.32	0.00	0.25	0.50	0.75	1.00	1.25	1.50	1.75	2.00	
Base Case	NPV8 (A\$m)	850	936	1,022	1,108	1,195	1,281	1,367	1,453	1,539	

Though the DFS - not due until end CY'22 - requires considerably more work, we highlight the valuation impact on an unrisks basis of taking the Jaguar Project further downstream in terms of the ultimate development decision:

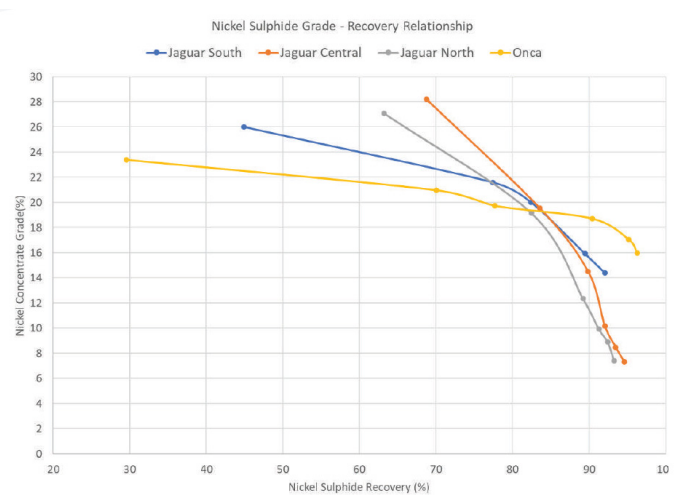
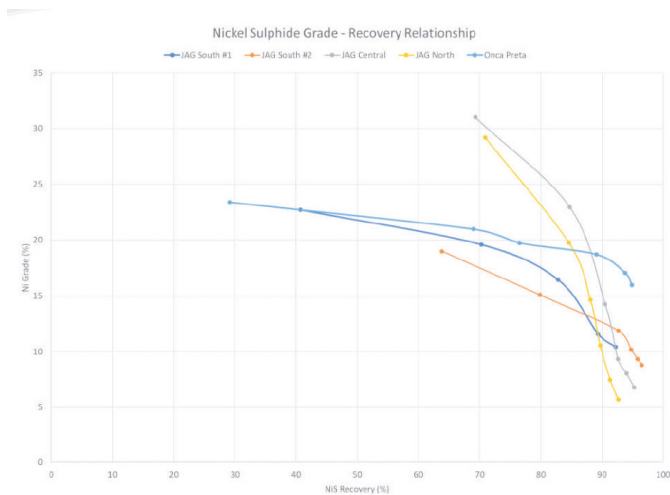
ASSET VALUATION		
Valuation	A\$m	A\$/sh.
(+) Jaguar Ni blend (50% risk adj.)	388	\$1.09
(+) Jambreiro (risk adj)	50	\$0.14
(-) Corporate	-36	-\$0.10
(+) Exploration	100	\$0.28
(-) Debt	0	\$-
(+) Unpaid Capital	3	\$0.01
(+) Cash	14	\$0.04
Valuation	519	\$1.49

This upside is the basis for our 'Bull Case' under the Sensitivity Page.

### KEY BENEFITS OF PoX SOLUTION - More Tonnes, More Green

Two elements that we like regarding the PoX approach beyond improved payabilities and potential sulphate premiums:

- the process provides for greater tolerance for av. head grade/ Resource grade;
- thereby enabling the project to develop a greater Resource inventory.



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Ni Sulphide Recovery-Grade Relationships (Value Enhancement for PoX - LHS; Base Case Floatation for Ni Conc - RHS)

This is further articulated via sensitivity scenarios on Valuation and Share Price in terms of the trade off between thru-put and grade for the PoX Value Enhancement scenario with the larger Resource:

Throughput (Mt)	Capex	Val/sh. \$ 1.52	Grade (%)					
			0.6%	0.7%	0.8%	0.9%	1.0%	1.1%
159	2.0	\$ 2.0	\$ 0.57	\$ 0.62	\$ 0.66	\$ 0.71	\$ 0.75	\$ 0.80
167	2.4	\$ 2.4	\$ 0.95	\$ 1.00	\$ 1.06	\$ 1.11	\$ 1.17	\$ 1.22
<b>178</b>	2.7	\$ 2.7	\$ 1.23	\$ 1.29	\$ 1.35	<b>\$ 1.41</b>	\$ 1.47	\$ 1.53
188	3.0	\$ 3.0	\$ 1.50	\$ 1.57	\$ 1.64	\$ 1.71	\$ 1.78	\$ 1.84
198	3.4	\$ 3.4	\$ 1.88	\$ 1.96	\$ 2.03	\$ 2.11	\$ 2.19	\$ 2.27
207	3.7	\$ 3.7	\$ 2.16	\$ 2.24	\$ 2.33	\$ 2.41	\$ 2.49	\$ 2.58
216	4.0	\$ 4.0	\$ 2.44	\$ 2.53	\$ 2.62	\$ 2.71	\$ 2.80	\$ 2.89

Throughput (Mt)	Capex	NPV8 914.3	Grade (%)					
			0.6%	0.7%	0.8%	0.9%	1.0%	1.1%
159	2.0	2.0	335.1	371.7	403.9	436.2	468.5	500.8
167	2.4	2.4	607.6	646.5	685.3	724.0	762.8	801.6
<b>178</b>	2.7	2.7	804.2	847.8	891.4	<b>935.1</b>	978.7	1,022.4
188	3.0	3.0	1,001.4	1,049.8	1,098.3	1,146.9	1,195.4	1,243.9
198	3.4	3.4	1,268.6	1,323.5	1,378.5	1,433.5	1,488.5	1,543.6
207	3.7	3.7	1,466.8	1,526.6	1,586.5	1,646.4	1,706.2	1,766.1
216	4.0	4.0	1,665.4	1,730.1	1,794.9	1,859.6	1,924.4	1,989.1

On top of which, CTMs Jaguar Project has the added ESG appeal of alignment with the EV battery metal space. Beyond which, and whilst the green aspect of the Jaguar Project has not yet be quantified, we highlight that the project has tangible green credentials that may yet realise economic benefits (higher prices for products via carbon credits or similar):

- +80% of power consumption is derived from renewable power sources (grid electricity is derived hydro with scope to inc. to 100% of grid);
- PoX circuit provides for more inert tailings in tailings dam;

The CTM investment thesis is simply that Jaguar is a very large, low cost development opportunity with clear scope to build scale and prosecute a downstream growth market with clear ESG overprint.



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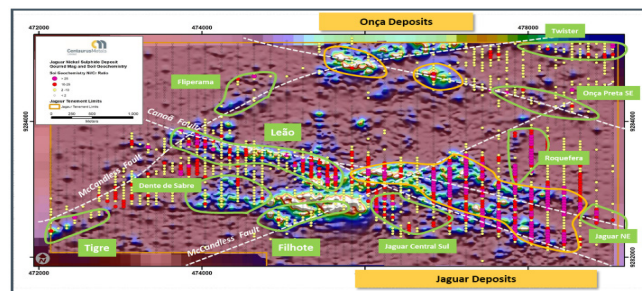
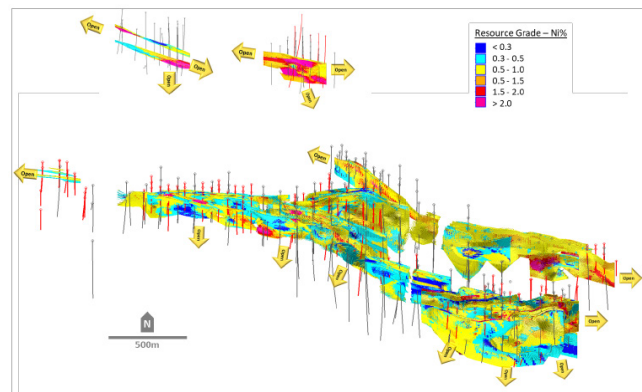
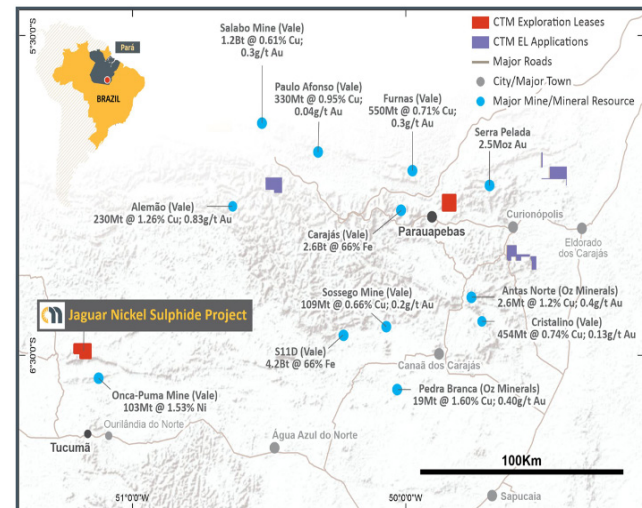
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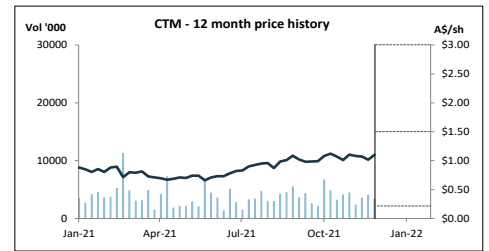
## Key Variables

ASSET VALUATION		
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(-) Corporate	-36	-\$0.10
(+) Exploration	100	\$0.28
(-) Debt	0	\$-
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(+) Cash	14	\$0.04
Valuation	519	\$1.49

EHLForecast	FY'19a	FY'20	FY'21	FY'22	FY'23	FY'24
AUDUSD		\$0.75	\$0.75	\$0.74	\$0.74	\$0.74
Nickel US\$/lb		\$8.3	\$8.5	\$8.5	\$8.3	\$8.0



## Our Share Price Sensitivity



## Our Market Sensitivity

Valuation - \$1.49/sh

Price Target - \$1.50/sh

### Bull Scenario - \$3.00/sh

CTM continues to build mineral resource inventories at Jaguar, expanding and or extending the potential development of the asset. Rising nickel prices continue to provide a supportive backdrop. The Project is successfully banked and commissioned in due course and the Jambreiro Fe ore asset realises value.

### Base Scenario - \$1.50/sh

CTM successfully banks and develops a Ni sulphide operation at Jaguar, broadly in-line with our preliminary economic assumptions. The Jambreiro Fe Project realises a portion of its potential NPV8 post tax PFS Value.

### Bear Scenario - \$0.20/sh

Nickel prices fall to prices seen last decade of around US\$4-5/lb, thereby slowing development progress at Jaguar.

## Company Summary

Centaurus Metals Limited engages in the exploration and evaluation of mineral resource properties in Brazil and Australia. The Company's flagship asset is the Jaguar Nickel Sulphide Project located in the Carajás Mineral Province in northern Brazil. CTM is undertaking a major drilling program which culminated in the delivery of an updated Mineral Resource Estimate for the Project in February 2021 of 58.6Mt grading 0.95% Ni for 557,800t of contained nickel. It also has the development ready, Jambreiro Iron Ore Project (PFS - 1mtpa mining operation).

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