

28 February 2019

Altech Chemicals Ltd (ATC)

BUY

Share Price: A\$0.12

Read through from W-Scope's DQ'18

Target Price: A\$0.33

W-Scope (6619.TKS) has recently released its DQ'18 results. The company's sales split provides an important industry benchmark on the adoption of coated separators. In DQ'18 the share of sales from coated separators rose to 51% of total sales, up from 12% in MQ'17. This provides a very positive read through for high purity alumina (HPA) which is a crucial raw material for this new generation of coated separators. In HPA Critical to Lithium-ion Battery Market we forecast that demand for HPA would grow by 4.8x from 2018 to 2025, this latest result from W-Scope gives us renewed confidence that this thematic is underway. Altech is BUY rated with an unchanged target price of A\$0.33/sh.

W-Scope DQ'18 Results

- Coated separators rose to 51% of total sales in DQ'18, up from 12% in MQ'17 (Figure 2).
- Interestingly coated demand was driven by consumer electronic (CE) applications rather than autos. The coated auto sales share peaked at 10% in SQ'18 and has steadily fallen, to 0% in DQ'18.
- Overall sales (coated and non-coated) has become skewed to CE accounting for 93% of sales in DQ'18 (Figure 3).
- W-Scope commentary attributes coated CE demand to cordless power tools and cordless home appliances. We believe the high discharge rate experienced by these appliances (think cordless drills and vacuum cleaners), require the separators to be coated.
- W-Scope has directed sales away from the Chinese autos market following the slowdown in growth after the revision of government subsidies. The company remains positive to the segment in the long term given the level of investment by auto and battery manufacturers particularly in Europe and the US.

HPA Market

- Our base case assumption is for the separator market to grow to 19% of the HPA market by 2025 at a CAGR of 26%, our forecasts show the separator market growing from 5kt in 2018 to 23ktpa by 2025 (the equivalent of 5 Altech projects).

Target Price A\$0.33/sh 1xNPV₁₀

- Our target price of A\$0.33/sh assumes a HPA price of US\$30,000/t, utilising a spot price of US\$40,000/t this increases to A\$0.63/sh.

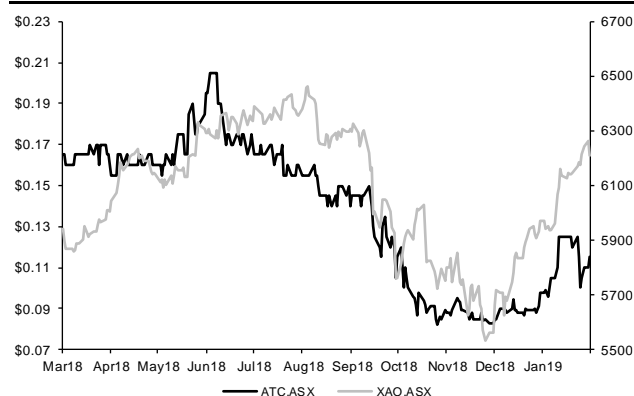
Company Data

Shares – ordinary (M)	572.6
Market capitalisation (\$M)	65.8
12 month low/high (\$)	0.08/ 0.22
Average monthly turnover (\$M)	1.8
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year End June	2020F	2021F	2022F	2023F	2024F
Revenue (\$m)	0	2	106	152	175
Costs (\$m)	1	4	39	49	56
EBITDA (\$m)	-1	-2	67	103	119
NPAT (\$m)	-12	-26	14	48	69
EPS (cps)	-2.0	-4.5	2.5	4.3	6.1
EPS growth (%)	-1266%	-119%	155%	74%	43%
PER (x)	na	na	5	3	2
Cashflow (\$m)	-1	-2	42	81	102
CFPS (cps)	0	0	7	7	9
PCFPS (x)	-78	-31	2	2	1
Enterprise Value (\$m)	277	430	394	319	223
EV / EBITDA (x)	-330	-206	6	3	2
Payout ratio (%)	0%	0%	0%	0%	0%
Dividend (cps)	0	0	0	0	0
Yield (%)	0	0	0	0	0
Franking (%)	0	0	0	0	0

ATC – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

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Analysis

Altech Chemicals Ltd (ATC)

27-Feb-19

Year End June

Share Price	(\$)	A\$0.115
Iss. Shares	(M)	572.6
Dilution	(M)	560.0
Fully Diluted	(M)	1132.6
Mkt Cap.	(\$M)	A\$66M

PROFIT & LOSS		2018F	2019F	2020F	2021F	2022F	2023F		2018F	2019F	2020F	2021F	2022F	2023F	
Revenue	A\$M	0	0	0	2	106	152	Reserve							
Operating Costs	A\$M	0	0	0	3	38	48	HPA							
Exploration	A\$M	0	0	0	0	0	0	Tonnes	Mt		1.36				
Other	A\$M	4	1	1	1	1	1	Grade (Al2O3 %)	%		30%				
EBITDA	A\$M	(4)	(1)	(1)	(2)	67	103	Contained Al2O3 (kt)	kt		408				
D&A	A\$M	0	0	0	1	28	32	HPA Production							
EBIT	A\$M	(4)	(1)	(1)	(3)	39	71	Ore Processed	kt	0.0	0.0	0.0	0.7	30.7	39.0
Net Interest	A\$M	(0)	(0)	11	23	25	22	Ore Grade	%	0.0	0.0	0.0	0.3	0.3	0.3
Pre-Tax Profit	A\$M	(4)	(1)	(12)	(26)	14	48	Overall Recovery	%	0%	0%	0%	38%	38%	38%
Tax	A\$M	0	0	0	0	0	0	HPA Produced	kt	0.0	0.0	0.0	0.1	3.2	4.0
Net Profit	A\$M	(4)	(1)	(12)	(26)	14	48	HPA Sold	kt	0.0	0.0	0.0	0.1	2.6	3.8
Abnormal	A\$M	0	0	0	0	0	0	C1 Costs	A\$'000/t	-	-	-	46.9	9.8	9.8
Reported Profit	A\$M	(4)	(1)	(12)	(26)	14	48	A1C Costs	A\$'000/t	-	-	-	51.2	14.1	14.1
Dividends Paid	A\$M	0	0	0	0	0	0	REVENUE							
Adjustments	A\$M	0	0	0	0	0	0	HPA Project	A\$M	0	0	0	2	106	152
CASHFLOW								Total	A\$M	0	0	0	2	106	152
Net Op Cash Flow	A\$M	(4)	(1)	(1)	(2)	67	103	OPERATING COSTS							
Net Interest	A\$M	0	0	0	0	(25)	(22)	Meckering (Mine)	A\$M	0	0	0	3	0	0
Tax Paid	A\$M	0	0	0	0	0	0	Direct Processing	A\$M	0	0	0	1	23	29
Op Cash Flow	A\$M	(4)	(1)	(1)	(2)	42	81	Transport	A\$M	0	0	0	0	3	3
Net Capex	A\$M	(6)	(60)	(199)	(150)	(6)	(6)	C1 Cash Cost	A\$M	0	0	0	3	31	39
Exploration	A\$M	0	0	0	0	0	0	Royalties	A\$M	0	0	0	0	6	8
Inv Cash Flow	A\$M	(6)	(60)	(199)	(150)	(6)	(6)	Corporate	A\$M	0	0	0	0	0	0
Free cash flow	A\$M	(10)	(61)	(200)	(153)	36	75	Total	A\$M	0	0	0	4	45	57
Net Borrowings	A\$M	(0)	150	225	0	(29)	(71)	CAPEX							
Dividends	A\$M	0	0	0	0	0	0	Project	A\$M	0.0	49.7	198.7	149.0	0.0	0.0
Equity Issues	A\$M	16	161	0	0	0	0	Sustaining	A\$M	0.0	0.0	0.0	1.5	6.0	6.0
Other	A\$M	0	(120)	0	0	0	0	Total	A\$M	0.0	49.7	198.7	150.5	6.0	6.0
Fin Cash Flow	A\$M	16	191	225	0	(29)	(71)	ASSUMPTIONS							
Net Cash Flow	A\$M	6	131	25	(153)	7	4	Exchange Rate	A\$/US\$	0.75	0.75	0.75	0.75	0.75	0.75

BALANCE SHEET		2018F	2019F	2020F	2021F	2022F	2023F		2018F	2019F	2020F	2021F	2022F	2023F
Cash	A\$M	7	138	164	11	18	21	Exchange Rate	A\$/US\$	0.75	0.75	0.75	0.75	0.75
Other Current	A\$M	0	0	0	0	0	0	Interest Paid	%	4%	4%	4%	4%	4%
Cur Assets	A\$M	8	138	164	11	18	21	Interest Rec	%	2%	2%	2%	2%	2%
Fixed Assets	A\$M	28	77	276	427	432	438	Diesel Price	A\$/L	1.2	1.2	1.2	1.2	1.2
Exploration	A\$M	0	0	0	0	0	0	Gas Price	\$/GJ	6.0	6.0	6.0	6.0	6.0
Other	A\$M	0	0	0	0	0	0	HPA Price	US\$/t	30000	30000	30000	30000	30000
Non Cur Assets	A\$M	28	78	276	427	433	439	HPA Price	A\$/t	40000	40000	40000	40000	40000
Total Assets	A\$M	36	216	440	438	451	460	CASH FLOW FORECASTS INCL DEBT & EQUITY						
Borrowings	A\$M	0	0	0	0	0	0							
Payables	A\$M	6	6	6	6	6	6							
Other	A\$M	0	0	0	0	0	0							
Cur Liab	A\$M	6	6	6	6	6	6							
Borrowings	A\$M	0	150	375	375	346	275							
Provisions	A\$M	0	0	0	0	0	0							
Other	A\$M	0	0	0	0	0	0							
Non Cur Liab	A\$M	0	150	375	375	346	275							
Total Liabilities	A\$M	6	156	381	381	352	281							
Total Equity	A\$M	29	59	59	57	98	179							

RATIO ANALYSIS		2018F	2019F	2020F	2021F	2022F	2023F		2018F	2019F	2020F	2021F	2022F	2023F
EPS	¢	(0.7)	(0.1)	(2.0)	(4.5)	2.5	4.3	NPV (+1Yr)	A\$M					
PER	x	na	na	na	na	4.7	2.7	HPA Operations				386		\$0.34
EPS Growth	%	5%	77%	-1266%	-119%	155%	74%	Corporate costs				-6		-\$0.01
CFPS	¢	(0.6)	(0.2)	(0.1)	(0.4)	7.3	7.1	Net Cash (Debt)				-12		-\$0.01
PCFR	x	na	na	na	na	1.6	1.6	Total				368		\$0.33
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	ASSUMPTIONS						
Yield	%	0%	0%	0%	0%	0%	0%	Exchange Rate	A\$/US\$	0.75	0.75	0.75	0.75	0.75
Payout Ratio	%	0%	0%	0%	0%	0%	0%	Interest Paid	%	4%	4%	4%	4%	4%
Gearing ND/E	%	-26%	20%	361%	644%	335%	142%	Interest Rec	%	2%	2%	2%	2%	2%
Interest Cover	x	32.2	3.2	na	na	1.6	3.2	Diesel Price	A\$/L	1.2	1.2	1.2	1.2	1.2
EBITDA Margin	%	na	na	na	(93.3)	63.5	67.9	Gas Price	\$/GJ	6.0	6.0	6.0	6.0	6.0
EBIT Margin	%	na	na	na	(122.6)	37.4	46.7	HPA Price	US\$/t	30000	30000	30000	30000	30000
Return On Assets	%	(10.9)	(0.6)	(0.2)	(0.6)	8.8	15.4	HPA Price	A\$/t	40000	40000	40000	40000	40000
Eff Tax rate	%	30%	30%	30%	30%	30%	30%	CASH FLOW FORECASTS INCL DEBT & EQUITY						

NPV (+1Yr)	A\$M	A\$/sh.
HPA Operations		
Corporate costs		
Net Cash (Debt)		
Total	368	\$0.33

Source: Petra Capital

Investment Thesis

Altech aim to be the world's first, pure play, high purity alumina (HPA) producer. The market for all grades of HPA is expected to quadruple in size by 2025, growing from ~39ktpa in CY19 to 122ktpa. Demand is being propelled by fast growing high tech applications, including LEDs and lithium-ion battery separators.

Altech's proposed West Australian mine and Malaysian HPA plant will produce 4.5ktpa of HPA and generate A\$180m in revenue at spot prices of US\$40,000/t.

The project is significantly advanced. Development approvals are in place, ECA funding of US\$190m is committed, an indicative mezz debt term sheet has been received, and a fixed price EPC contract has been signed with leading German firm SMS Group that guarantees throughput volumes/quality and includes commissioning responsibility.

Altech is BUY rated with a A\$0.33/sh target price (1xNPV).

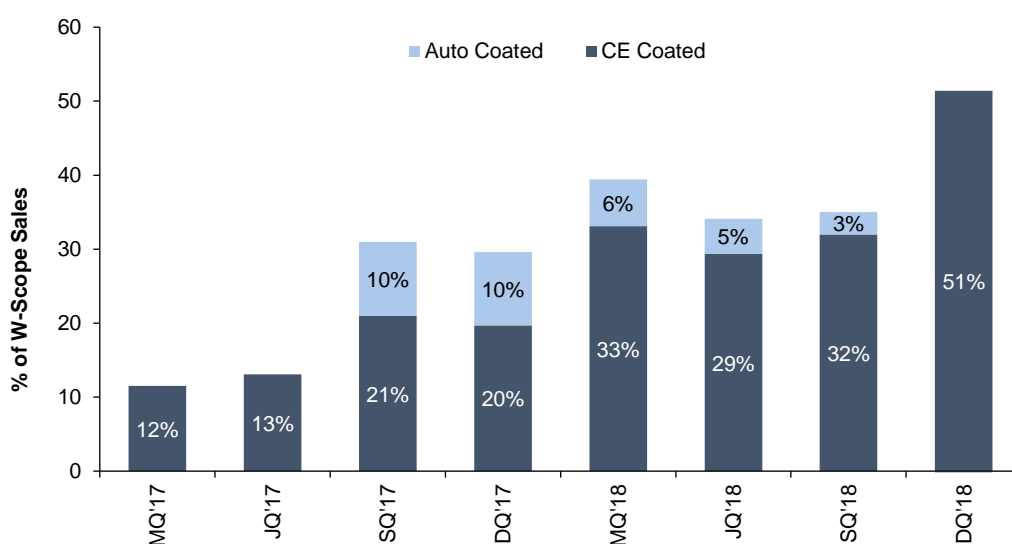
W-Scope Sales Analysis

Figure 1: W-Scope sales by segment and coating

	MQ'17	JQ'17	SQ'17	DQ'17	MQ'18	JQ'18	SQ'18	DQ'18
Total Sales (¥m)	2,150	2,340	2,443	2,584	2,136	2,091	2,050	2,454
CE Coated (%)	12	13	21	20	33	29	32	51
CE Non-Coated (%)	57	58	44	45	42	49	53	41
Auto Coated (%)	0	0	10	10	6	5	3	0
Auto Non-Coated (%)	32	29	25	26	18	17	12	7
Total Coated (%)	12	13	31	30	39	34	35	51
Total Non-Coated (%)	89	87	69	70	61	66	65	48

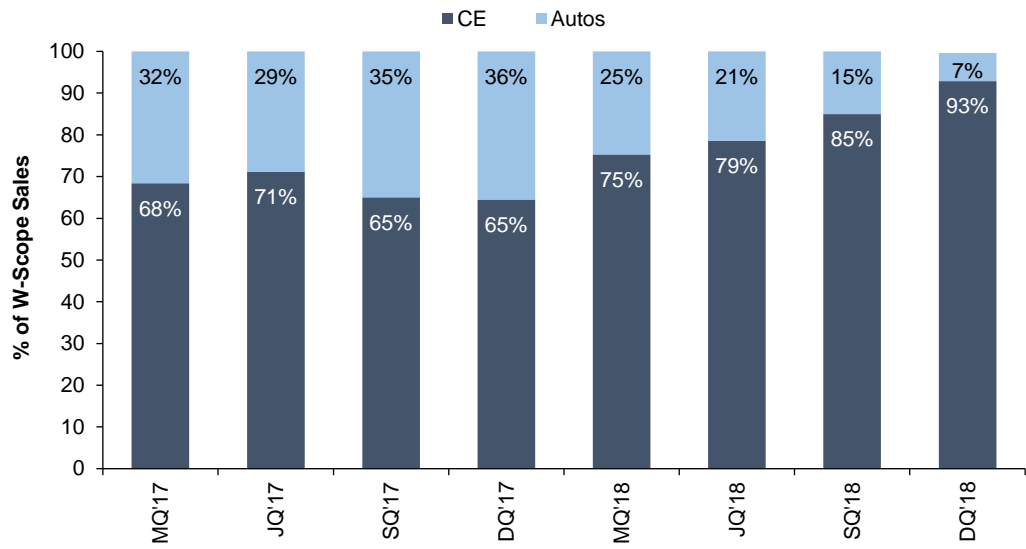
Source: W-Scope, Petra Capital

Figure 2: W-Scope separator sales that are coated (%)



Source: W-Scope, Petra Capital

Figure 3: W-Scope separator sales by application (coated and non-coated)



Source: W-Scope, Petra Capital



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