

18 June 2018

Altech Chemicals Ltd (ATC)

BUY

Share Price: \$0.19

Funding gap closes with streaming finance facility

Target Price:

A\$0.41

Altech has now received commitments and/or term sheets for US\$340m of financing facilities. The announcement of an indicative US\$60m streaming finance facility, in our view, demonstrates the advanced nature of Altech's HPA project. This facility would be structured to operate in conjunction with Altech's offtake agreement with Mitsubishi and would need to be acceptable to both the senior lender, KFW-IPEX Bank, and any mezzanine lender. We see this development significantly closing the funding gap as Altech nears a fully financed project, in a commodity that shows a very robust outlook leveraged by growth in LEDs and lithium-ion batteries. We maintain our BUY rating with an unchanged A\$0.41/sh target price.

Streaming Finance

- A global investment group, with US\$4.5b under management, has provided Altech with a term sheet for a US\$60m streaming facility. The facility would be in exchange for an undisclosed percentage of future gross sales.
- The facility remains subject to further due diligence and agreement from the senior lender, KFW-IPEX Bank and any mezzanine lender.
- The interest shown from a variety of financiers shows the advanced nature of Altech's HPA project.

Investment Thesis

- Altech aims 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 33ktpa to 122ktpa. Demand is being propelled by fast growing high tech applications, including LEDs and lithium-ion battery separators.
- Altech has a significantly advanced project. Development approvals are in place, ECA funding (US\$190m) has been committed, an indicative mezz debt term sheet (US\$90m) and indicative streaming facility term sheet (US\$60m) has been received (Figure 1), and a fixed price EPC contract has been signed with German firm SMS group that guarantees throughput volumes/product quality and includes commissioning responsibility.

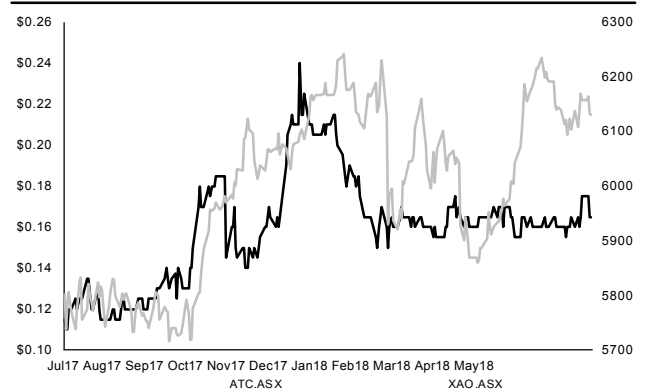
Company Data

Shares – ordinary (M)	426.5
Market capitalisation (\$M)	79
12 month low/high (\$)	0.1/ 0.26
Average monthly turnover (\$M)	2.1
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year End June	2020F	2021F	2022F	2023F	2024F
Revenue (\$m)	0	0	76	140	174
Costs (\$m)	1	1	32	46	53
EBITDA (\$m)	-1	-1	44	94	121
NPAT (\$m)	-2	-8	6	35	56
EPS (cps)	-0.4	-2.0	1.4	3.5	5.6
EPS growth (%)	-815%	-365%	169%	159%	57%
PER (x)	na	na	13	5	3
Cashflow (\$m)	-2	-8	30	81	113
CFPS (cps)	0	-2	7	8	11
PCFPS (x)	-43	-9	3	2	2
Enterprise Value (\$m)	185	326	302	226	120
EV / EBITDA (x)	na	na	7	2	1
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.

Analysis

Altech Chemicals Ltd (ATC)

18-Jun-18
Year End June

Share Price	(\$)	A\$0.19
Iss. Shares	(M)	426.5
Dilution	(M)	572.2
Fully Diluted	(M)	998.7
Mkt Cap.	(\$M)	A\$79M

PROFIT & LOSS									2018F 2019F 2020F 2021F 2022F 2023F 2024F 2025F																									
Revenue	ASM	0	0	0	0	76	140	174	180	Reserve																								
Operating Costs	ASM	0	0	0	0	31	45	52	56	HPA																								
Exploration	ASM	0	0	0	0	0	0	0	0	Tonnes			Mt	1.36																				
Other	ASM	5	1	1	1	1	1	1	1	Grade (Al2O3 %)			%	30%																				
EBITDA	ASM	(5)	(1)	(1)	(1)	44	94	121	123	Contained Al2O3 (kt)			kt	408																				
D&A	ASM	0	0	0	0	21	31	33	31	HPA																								
EBIT	ASM	(5)	(1)	(1)	(1)	23	63	87	92	Production																								
Net Interest	ASM	(0)	(2)	2	11	15	13	8	2	Ore Processed			kt	0.0	0.0	0.0	0.0	23.1	36.7	42.5	43.5													
Pre-Tax Profit	ASM	(5)	0	(3)	(12)	8	51	79	89	Ore Grade			%	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3													
Tax	ASM	(1)	0	(1)	(4)	2	15	24	27	Overall Recovery			%	0%	0%	0%	0%	38%	38%	38%	38%													
Net Profit	ASM	(3)	0	(2)	(8)	6	35	56	63	HPA Produced			kt	0.0	0.0	0.0	0.0	2.4	3.8	4.4	4.5													
Abnormal	ASM	0	0	0	0	0	0	0	0	HPA Sold			kt	0.0	0.0	0.0	0.0	1.9	3.5	4.3	4.5													
Reported Profit	ASM	(3)	0	(2)	(8)	6	35	56	63	C1 Costs			A\$'000/t	-	-	-	-	10.9	9.8	9.8	10.4													
Dividends Paid	ASM	0	0	0	0	0	0	0	0	AISC			A\$'000/t	-	-	-	-	15.2	14.1	14.1	14.7													
Adjustments	ASM	0	0	0	0	0	0	0	0	EVENUE																								
CASHFLOW									HPA Project									ASM	0	0	0	0	76	140	174	180								
Net Op Cash Flow	ASM	(5)	(1)	(1)	(1)	44	94	121	123	Total									ASM	0	0	0	0	76	140	174	180							
Net Interest	ASM	0	2	(2)	(11)	(15)	(13)	(8)	(2)	OPERATING COSTS																								
Tax Paid	ASM	1	(0)	1	4	1	0	0	(14)	Meckering (Mine)			ASM	0	0	0	0	3	0	0	3													
Op Cash Flow	ASM	(3)	0	(2)	(8)	30	81	113	107	Direct Processing			ASM	0	0	0	0	17	28	32	33													
Net Capex	ASM	0	(132)	(132)	(132)	(6)	(6)	(6)	(6)	Transport			ASM	0	0	0	0	2	3	3	4													
Exploration	ASM	0	0	0	0	0	0	0	0	C1 Cash Cost			ASM	0	0	0	0	26	37	43	47													
Inv Cash Flow	ASM	0	(132)	(132)	(132)	(6)	(6)	(6)	(6)	Royalties			ASM	0	0	0	0	5	8	9	9													
Free cash flow	ASM	(3)	(132)	(134)	(141)	24	76	107	101	Corporate			ASM	0	0	0	0	0	0	0	1													
Net Borrowings	ASM	0	0	203	51	(20)	(70)	(80)	(76)	Total									ASM	0	0	0	0	36	53	62	66							
Dividends	ASM	0	0	0	0	0	0	0	0	CAPEX																								
Equity Issues	ASM	17	143	0	0	0	0	0	0	Project			ASM	0.0	132.4	132.4	132.4	0.0	0.0	0.0	0.0													
Other	ASM	0	0	0	0	0	0	0	0	Sustaining			ASM	0.0	0.0	0.0	0.0	6.0	6.0	6.0	6.0													
Fin Cash Flow	ASM	17	143	203	51	(20)	(70)	(80)	(76)	Total									ASM	0.0	132.4	132.4	132.4	6.0	6.0	6.0	6.0							
Net Cash Flow	ASM	14	11	69	(90)	4	6	27	24																									
BALANCE SHEET									ASSUMPTIONS																									
Cash	ASM	15	26	95	5	9	15	41	66	Exchange Rate	A\$/US\$	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75															
Other Current	ASM	0	0	0	0	0	0	0	0	Interest Paid	%	3%	3%	3%	3%	3%	3%	3%	3%															
Cur Assets	ASM	15	26	95	5	9	15	42	66	Interest Rec	%	2%	2%	2%	2%	2%	2%	2%	2%															
Fixed Assets	ASM	23	155	288	420	426	432	438	444	Diesel Price	\$/L	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2															
Exploration	ASM	0	0	0	0	0	0	0	0	Gas Price	\$/GJ	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0															
Other	ASM	0	0	0	0	0	0	0	0	HPA Price	US\$/t	30000	30000	30000	30000	30000	30000	30000	30000															
Non Cur Assets	ASM	23	156	288	421	427	433	438	444	HPA Price	A\$/t	40000	40000	40000	40000	40000	40000	40000	40000															
Total Assets	ASM	39	182	383	426	436	448	480	510	CASH FLOW FORECASTS INCL DEBT & EQUITY																								
Borrowings	ASM	0	0	0	0	0	0	0	0																									
Payables	ASM	7	7	7	7	7	7	7	7	<table border="1"> <thead> <tr> <th>NPV (+1Yr)</th> <th>ASM</th> <th>A\$/sh.</th> </tr> </thead> <tbody> <tr> <td>HPA Operations</td> <td>386</td> <td>\$0.39</td> </tr> <tr> <td>Corporate costs</td> <td>-6</td> <td>-\$0.01</td> </tr> <tr> <td>Net Cash (Debt)</td> <td>26</td> <td>\$0.03</td> </tr> <tr> <td>Total</td> <td>406</td> <td>\$0.41</td> </tr> </tbody> </table>										NPV (+1Yr)	ASM	A\$/sh.	HPA Operations	386	\$0.39	Corporate costs	-6	-\$0.01	Net Cash (Debt)	26	\$0.03	Total	406	\$0.41
NPV (+1Yr)	ASM	A\$/sh.																																
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Net Cash (Debt)	26	\$0.03																																
Total	406	\$0.41																																
Other	ASM	0	0	0	0	0	0	0	0																									
Cur Liab	ASM	7	7	7	7	7	7	7	7																									
Borrowings	ASM	0	0	203	254	234	164	84	8																									
Provisions	ASM	0	0	0	0	0	0	0	0																									
Other	ASM	0	0	0	0	0	0	0	0																									
Non Cur Liab	ASM	0	0	203	254	234	164	84	8																									
Total Liabilities	ASM	7	7	211	262	242	172	92	15																									
Total Equity	ASM	31	175	173	164	195	276	389	495																									
RATIO ANALYSIS																																		
EPS	¢	(0.8)	0.1	(0.4)	(2.0)	1.4	3.5	5.6	6.3																									
PER	x	na	312.4	na	na	13.5	5.2	3.3	3.0																									
EPS Growth	%	17%	108%	-815%	-365%	169%	159%	57%	12%																									
CFPS	¢	(0.8)	0.1	(0.4)	(2.0)	7.1	8.2	11.3	10.7																									
PCFR	x	na	312.4	na	na	2.6	2.3	1.6	1.7																									
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0																									
Yield	%	0%	0%	0%	0%	0%	0%	0%	0%																									
Payout Ratio	%	0%	0%	0%	0%	0%	0%	0%	0%																									
Gearing ND/E	%	-48%	-15%	63%	152%	116%	54%	11%	-12%																									
Interest Cover	x	18.5	0.8	na	na	1.6	5.0	10.9	38.5																									
EBITDA Margin	%	na	na	na	na	58.2	67.2	69.4	68.3																									
EBIT Margin	%	na	na	na	na	30.7	45.1	50.4	51.0																									
Return On Assets	%	(12.8)	(0.7)	(0.2)	(0.2)	5.4	14.1	18.2	18.0																									
Eff Tax rate	%	30%	30%	30%	30%	30%	30%	30%	30%																									

Source: Petra Capital

Project Financing Status

Figure 1: Project Financing Status

Facility	Financier	Amount	Status	Date
Senior Loan	KFW-IPEX Bank	US\$190m	Committed	Feb-18
Mezzanine Loan	Global Merchant Bank	US\$90m	Indicative Term Sheet	May-18
Stream Finance	Global Investment Group	US\$60m	Indicative Term Sheet	Jun-18
Total		US\$340m		

Source: Petra Capital, Company Reports

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