

14 May 2018

Altech Chemicals Ltd (ATC)

BUY

Share Price: \$0.16

Funding strategy taking shape

Target Price: A\$0.41

The receipt of an indicative mezzanine debt term sheet for a US\$90m facility, in addition to the US\$190m ECA financing committed by KfW IPEX-Bank in Feb-18, demonstrates the progress and third-party verification Altech continues to make for its high purity alumina (HPA) project. We see the term sheet, from a global investment bank, as a positive and important step towards 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.

First debt term sheets received

- Following extensive preliminary due diligence, a top tier, global investment banking group, has provided Altech with a term sheet for a US\$90m mezzanine facility. (US\$120m including accrued interest during construction and commissioning).
- The mezzanine facility will be fully subordinate to the US\$190m ECA facility committed by German government owned KfW IPEX-Bank.
- Altech are soliciting term sheets from other top-tier lenders to maintain competitive tension.

Early works maintain momentum until finance close

- In a notice of general meeting, a resolution has been requested for pre-approval to raise up to A\$30m of equity to commit to early works.
- Early works such as foundation piling and construction engineering are critical pathway work packages. We see their commencement as being positive for the project and provides for strong newsflow whilst the mezzanine lenders finalise due diligence and before finance close.

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 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 has been received, and a fixed price EPC contract has been signed with German firm SMS group that guarantees throughput volumes/product quality and includes commissioning responsibility.

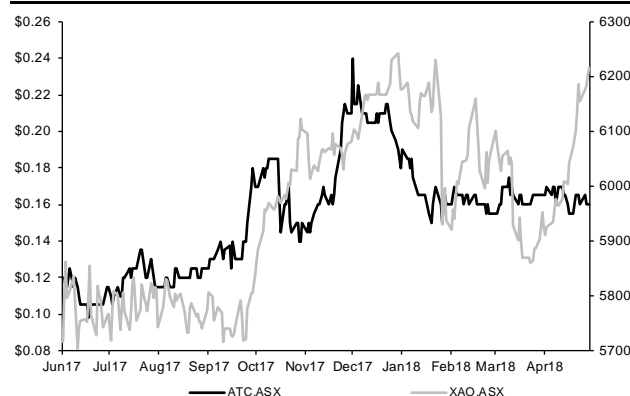
Company Data

Shares – ordinary (M)	426.5
Market capitalisation (\$M)	68.2
12 month low/high (\$)	0.10 / 0.26
Average monthly turnover (\$M)	1.7
Index	All Ords
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	12	5	3
Cashflow (\$m)	-2	-8	30	81	113
CFPS (cps)	0	-2	7	8	11
PCFPS (x)	-39	-8	2	2	1
Enterprise Value (\$m)	179	319	295	220	113
EV / EBITDA (x)	-213	-380	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.

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Analysis

Altech Chemicals Ltd (ATC)										
14-May-18										
Year End June										
					Share Price	(\$)	A\$0.16			
					Iss. Shares	(M)	426.5			
					Dilution	(M)	572.2			
					Fully Diluted	(M)	998.7			
					Mkt Cap.	(\$M)	A\$68M			
PROFIT & LOSS										
		2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	
Revenue	A\$M	0	0	0	0	76	140	174	180	
Operating Costs	A\$M	0	0	0	0	31	45	52	56	
Exploration	A\$M	0	0	0	0	0	0	0	0	
Other	A\$M	5	1	1	1	1	1	1	1	
EBITDA	A\$M	(5)	(1)	(1)	(1)	44	94	121	123	
D&A	A\$M	0	0	0	0	21	31	33	31	
EBIT	A\$M	(5)	(1)	(1)	(1)	23	63	87	92	
Net Interest	A\$M	(0)	(2)	2	11	15	13	8	2	
Pre-Tax Profit	A\$M	(5)	0	(3)	(12)	8	51	79	89	
Tax	A\$M	(1)	0	(1)	(4)	2	15	24	27	
Net Profit	A\$M	(3)	0	(2)	(8)	6	35	56	63	
Abnormal	A\$M	0	0	0	0	0	0	0	0	
Reported Profit	A\$M	(3)	0	(2)	(8)	6	35	56	63	
Dividends Paid	A\$M	0	0	0	0	0	0	0	0	
Adjustments	A\$M	0	0	0	0	0	0	0	0	
CASHFLOW										
Net Op Cash Flow	A\$M	(5)	(1)	(1)	(1)	44	94	121	123	
Net Interest	A\$M	0	2	(2)	(11)	(15)	(13)	(8)	(2)	
Tax Paid	A\$M	1	(0)	1	4	1	0	0	(14)	
Op Cash Flow	A\$M	(3)	0	(2)	(8)	30	81	113	107	
Net Capex	A\$M	0	(132)	(132)	(132)	(6)	(6)	(6)	(6)	
Exploration	A\$M	0	0	0	0	0	0	0	0	
Inv Cash Flow	A\$M	0	(132)	(132)	(132)	(6)	(6)	(6)	(6)	
Free cash flow	A\$M	(3)	(132)	(134)	(141)	24	76	107	101	
Net Borrowings	A\$M	0	0	203	51	(20)	(70)	(80)	(76)	
Dividends	A\$M	0	0	0	0	0	0	0	0	
Equity Issues	A\$M	17	143	0	0	0	0	0	0	
Other	A\$M	0	0	0	0	0	0	0	0	
Fin Cash Flow	A\$M	17	143	203	51	(20)	(70)	(80)	(76)	
Net Cash Flow	A\$M	14	11	69	(90)	4	6	27	24	
BALANCE SHEET										
Cash	A\$M	15	26	95	5	9	15	41	66	
Other Current	A\$M	0	0	0	0	0	0	0	0	
Cur Assets	A\$M	15	26	95	5	9	15	42	66	
Fixed Assets	A\$M	23	155	288	420	426	432	438	444	
Exploration	A\$M	0	0	0	0	0	0	0	0	
Other	A\$M	0	0	0	0	0	0	0	0	
Non Cur Assets	A\$M	23	156	288	421	427	433	438	444	
Total Assets	A\$M	39	182	383	426	436	448	480	510	
Borrowings	A\$M	0	0	0	0	0	0	0	0	
Payables	A\$M	7	7	7	7	7	7	7	7	
Other	A\$M	0	0	0	0	0	0	0	0	
Cur Liab	A\$M	7	7	7	7	7	7	7	7	
Borrowings	A\$M	0	0	203	254	234	164	84	8	
Provisions	A\$M	0	0	0	0	0	0	0	0	
Other	A\$M	0	0	0	0	0	0	0	0	
Non Cur Liab	A\$M	0	0	203	254	234	164	84	8	
Total Liabilities	A\$M	7	7	211	262	242	172	92	15	
Total Equity	A\$M	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	270.2	na	na	11.7	4.5	2.9	2.6	
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	270.2	na	na	2.3	2.0	1.4	1.5	
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%	
ASSUMPTIONS										
Exchange Rate	A\$/US\$	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	
Interest Paid	%	3%	3%	3%	3%	3%	3%	3%	3%	
Interest Rec	%	2%	2%	2%	2%	2%	2%	2%	2%	
Diesel Price	A\$/L	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	
Gas Price	\$/GJ	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	
HPA Price	US\$/t	30000	30000	30000	30000	30000	30000	30000	30000	
HPA Price	A\$/t	40000	40000	40000	40000	40000	40000	40000	40000	
CASH FLOW FORECASTS INCL DEBT & EQUITY										
NPV (+1Yr)										
									A\$M	A\$/sh.
HPA Operations									386	\$0.39
Corporate costs									-6	-\$0.01
Net Cash (Debt)									26	\$0.03
Total									406	\$0.41

Source: Petra Capital


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