

8 May 2019

## Altech Chemicals Ltd (ATC)

**BUY**

**Share Price: A\$0.12**

### Johor Site Visit – Momentum Maintained

**Target Price:**

**A\$0.33**

Altech aims to be the world's first pure play high purity alumina (HPA) producer. Our visit to the Malaysian construction site demonstrated the confidence and commitment of Altech's partners to the development of this project. We were there to attend the "Opstaan Yster", or "Stand Up Steel" ceremony to celebrate the first steel to be erected on the project as part of the early works. The project has commenced two phases of early works designed to progress engineering and prepare the site for full construction. Not only do these works reduce the scope of the main EPC contract, but importantly they allow the EPC contractor, SMS Group, to maintain their project engineering team. This should allow the rapid implementation of the full construction schedule when finance is closed as expected in Q4'19. We update our project timelines and adjust for the recent A\$18m capital raise with an unchanged target price of 33¢/sh, we reiterate our BUY recommendation.

#### Early works maintain momentum in the project

- We fully support Altech's strategy of commencing early construction works on the Malaysian processing plant. It allows Altech to maintain the EPC contractor engineering team, reduces the full construction schedule, and continues to raise the profile of the project.

#### Construction team

- We were impressed by the competence, commitment and confidence displayed by Altech's contractors. We have little doubt in their ability to execute the full EPC contract which requires the delivery of a fully commission plant with HPA at a designated spec.
- SMS Group, the lead EPC contractor, is a German headquartered, global engineering firm specialising in design and construction of a wide variety of metal processing plants. It has in-country experience with the recent completion of a FeMn smelter in Malaysia.
- Metix group is a South African headquartered wholly-owned subsidiary of SMS group. It is responsible for the early works on site, with the civils and building construction in turn subcontracted to AME construction, a local construction firm.

#### Key dates ahead

- Finance close is expected in Q4'19 with the commencement of full construction in Q1'20. We expect components of the mezz debt technical due diligence to be released over the next month, with a HPA market report likely to be the most significant update.

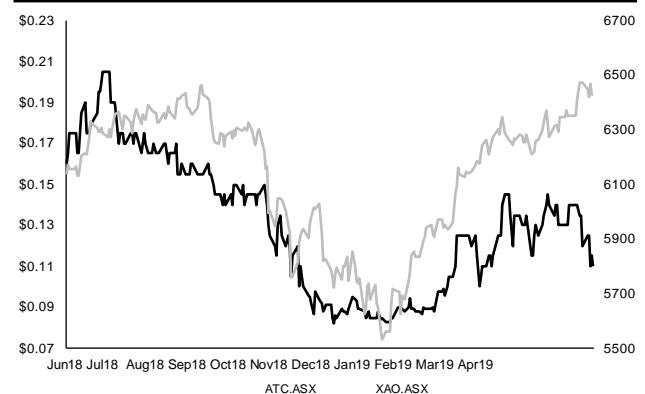
#### Company Data

Shares – ordinary (M)	703.7
Market capitalisation (\$M)	84
12 month low/high (\$)	0.08/ 0.22
Average monthly turnover (\$M)	1.9
GICS Industry	Metals & Mining

#### Financial Summary (fully diluted/normalised)

Year End June	2020F	2021F	2022F	2023F	2024F
Revenue (\$m)	0	0	2	109	156
Costs (\$m)	1	1	4	39	49
EBITDA (\$m)	-1	-1	-2	70	107
NPAT (\$m)	-1	-11	-23	20	49
EPS (cps)	-0.1	-1.5	-3.3	1.6	3.9
EPS growth (%)	85%	-1494%	-112%	147%	152%
PER (x)	na	na	na	8	3
Cashflow (\$m)	-1	-1	-23	45	83
CFPS (cps)	0	0	-3	4	7
PCFPS (x)	-101	-101	-4	3	2
Enterprise Value (\$m)	71	210	372	436	359
EV / EBITDA (x)	-85	-250	-183	6	3
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



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

## Analysis

### Altech Chemicals Ltd (ATC)

8-May-19  
Year End June

Share Price	(\$)	A\$0.120
Iss. Shares	(M)	703.7
Dilution	(M)	560.0
Fully Diluted	(M)	1263.7
Mkt Cap.	(\$M)	A\$84M

PROFIT & LOSS		2018F	2019F 2	020F	2021F	2022F 2	023F			2018F	2019F	2020F	2021F	2022F	2023F																									
Revenue	A\$M	0	0	0	0	2	109	<b>Reserve</b>																																
Operating Costs	A\$M	0	0	0	0	3	38	<b>HPA</b>																																
Exploration	A\$M	(0)	1	0	0	0	0	Tonnes	Mt		1.36																													
Other	A\$M	5	4	1	1	1	1	Grade (Al2O3 %)	%		30%																													
<b>EBITDA</b>	<b>A\$M</b>	<b>(5)</b>	<b>(5)</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>	<b>70</b>	Contained Al2O3 (kt)	kt		408																													
D&A	A\$M	0	0	0	0	0	25	<b>HPA</b>																																
<b>EBIT</b>	<b>A\$M</b>	<b>(5)</b>	<b>(5)</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>	<b>44</b>	<b>Production</b>																																
Net Interest	A\$M	0	0	(0)	10	21	25	Ore Processed	kt	0.0	0.0	0.0	0.0	0.7	30.7																									
<b>Pre-Tax Profit</b>	<b>A\$M</b>	<b>(5)</b>	<b>(5)</b>	<b>(1)</b>	<b>(11)</b>	<b>(23)</b>	<b>20</b>	Ore Grade	%	0.0	0.0	0.0	0.0	0.3	0.3																									
Tax	A\$M	0	0	0	0	0	0	Overall Recovery	%	0%	0%	0%	0%	38%	38%																									
<b>Net Profit</b>	<b>A\$M</b>	<b>(5)</b>	<b>(5)</b>	<b>(1)</b>	<b>(11)</b>	<b>(23)</b>	<b>20</b>	HPA Produced	kt	0.0	0.0	0.0	0.0	0.1	3.2																									
Abnormal	A\$M	0	0	0	0	0	0	HPA Sold	kt	0.0	0.0	0.0	0.0	0.1	2.6																									
<b>Reported Profit</b>	<b>A\$M</b>	<b>(5)</b>	<b>(5)</b>	<b>(1)</b>	<b>(11)</b>	<b>(23)</b>	<b>20</b>	<b>C1 Costs</b>	<b>A\$'000/t</b>	-	-	-	-	<b>46.9</b>	<b>9.8</b>																									
Dividends Paid	A\$M	0	0	0	0	0	0	<b>AISC</b>	<b>A\$'000/t</b>	-	-	-	-	<b>51.3</b>	<b>14.2</b>																									
Adjustments	A\$M	0	0	0	0	0	0	<b>REVENUE</b>																																
<b>CASHFLOW</b>								HPA Project	A\$M	0	0	0	0	2	109																									
Net Op Cash Flow	A\$M	(2)	(2)	(1)	(1)	(2)	70	<b>Total</b>	<b>A\$M</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>109</b>																								
Net Interest	A\$M	0	0	0	0	(21)	(25)	<b>OPERATING COSTS</b>																																
Tax Paid	A\$M	0	0	0	0	0	0	Meckering (Mine)	A\$M	0	0	0	0	3	0																									
<b>Op Cash Flow</b>	<b>A\$M</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>	<b>(23)</b>	<b>45</b>	Direct Processing	A\$M	0	0	0	0	1	23																									
<b>BALANCE SHEET</b>								Transport	A\$M	0	0	0	0	0	3																									
Cash	A\$M	0	6	169	264	103	9	C1 Cash Cost	A\$M	0	0	0	0	3	31																									
Other Current	A\$M	0	0	0	0	0	0	Royalties	A\$M	0	0	0	0	0	7																									
<b>Cur Assets</b>	<b>A\$M</b>	<b>0</b>	<b>6</b>	<b>169</b>	<b>265</b>	<b>103</b>	<b>9</b>	Corporate	A\$M	0	0	0	0	0	0																									
Fixed Assets	A\$M	34	47	81	219	358	468	<b>Total</b>	<b>A\$M</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>45</b>																									
Exploration	A\$M	0	0	0	0	0	0	<b>CAPEX</b>																																
Other	A\$M	0	0	0	0	0	0	Project	A\$M	0.0	0.0	34.4	137.8	137.8	103.3																									
<b>Non Cur Assets</b>	<b>A\$M</b>	<b>34</b>	<b>47</b>	<b>82</b>	<b>219</b>	<b>359</b>	<b>468</b>	Sustaining	A\$M	0.0	0.0	0.0	0.0	1.5	6.2																									
<b>Total Assets</b>	<b>A\$M</b>	<b>35</b>	<b>53</b>	<b>251</b>	<b>484</b>	<b>461</b>	<b>477</b>	<b>Total</b>	<b>A\$M</b>	<b>0.0</b>	<b>0.0</b>	<b>34.4</b>	<b>137.8</b>	<b>139.3</b>	<b>109.5</b>																									
Borrowings	A\$M	0	0	0	0	0	0	<b>ASSUMPTIONS</b>																																
Payables	A\$M	3	1	1	1	1	1	Exchange Rate	A\$/US\$	0.78	0.72	0.72	0.72	0.73	0.73																									
Other	A\$M	0	0	0	0	0	0	Interest Paid	%	4%	4%	4%	4%	4%	4%																									
<b>Cur Liab</b>	<b>A\$M</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	Interest Rec	%	2%	2%	2%	2%	2%	2%																									
Borrowings	A\$M	0	0	156	390	390	361	Diesel Price	A\$/L	1.2	1.2	1.2	1.2	1.2	1.2																									
Provisions	A\$M	0	0	0	0	0	0	Gas Price	\$/GJ	6.0	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	30000																									
<b>Non Cur Liab</b>	<b>A\$M</b>	<b>0</b>	<b>0</b>	<b>156</b>	<b>390</b>	<b>390</b>	<b>361</b>	HPA Price	A\$/t	38697	41593	41667	41667	41379	41096																									
<b>Total Liabilities</b>	<b>A\$M</b>	<b>3</b>	<b>2</b>	<b>158</b>	<b>392</b>	<b>392</b>	<b>363</b>	<b>CASH FLOW FORECASTS INCL DEBT &amp; EQUITY</b>																																
<b>Total Equity</b>	<b>A\$M</b>	<b>31</b>	<b>51</b>	<b>93</b>	<b>92</b>	<b>70</b>	<b>115</b>																																	
<b>RATIO ANALYSIS</b>								<table> <tr> <td>NPV (+1Yr)</td> <td>A\$M</td> <td></td> <td>A\$/sh.</td> <td></td> </tr> <tr> <td>HPA Operations</td> <td></td> <td>422</td> <td></td> <td>\$0.33</td> </tr> <tr> <td>Corporate costs</td> <td></td> <td>-6</td> <td></td> <td>\$0.00</td> </tr> <tr> <td>Net Cash (Debt)</td> <td></td> <td>6</td> <td></td> <td>\$0.00</td> </tr> <tr> <td><b>Total</b></td> <td></td> <td><b>422</b></td> <td></td> <td><b>\$0.33</b></td> </tr> </table>								NPV (+1Yr)	A\$M		A\$/sh.		HPA Operations		422		\$0.33	Corporate costs		-6		\$0.00	Net Cash (Debt)		6		\$0.00	<b>Total</b>		<b>422</b>		<b>\$0.33</b>
NPV (+1Yr)	A\$M		A\$/sh.																																					
HPA Operations		422		\$0.33																																				
Corporate costs		-6		\$0.00																																				
Net Cash (Debt)		6		\$0.00																																				
<b>Total</b>		<b>422</b>		<b>\$0.33</b>																																				
EPS	¢	(0.7)	(0.7)	(0.1)	(1.5)	(3.3)	1.6																																	
PER	x	na	na	na	na	na	7.7																																	
EPS Growth	%	-20%	3%	85%	-1494%	-112%	147%																																	
CFPS	¢	(0.3)	(0.3)	(0.1)	(0.1)	(3.2)	3.6																																	
PCFR	x	na	na	na	na	na	3.4																																	
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0																																	
Yield	%	0%	0%	0%	0%	0%	0%																																	
Payout Ratio	%	0%	0%	0%	0%	0%	0%																																	
Gearing ND/E	%	-1%	-11%	-14%	136%	413%	307%																																	
Interest Cover	x	na	na	5.3	na	na	1.8																																	
EBITDA Margin	%	na	na	na	na	(88.3)	64.3																																	
EBIT Margin	%	na	na	na	na	(108.1)	40.9																																	
Return On Assets	%	(13.4)	(8.7)	(0.3)	(0.2)	(0.5)	9.3																																	
Eff Tax rate	%	30%	30%	30%	30%	30%	30%																																	

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 US\$90m mezz debt term sheet has been received from Macquarie, 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).

## Malaysian HPA Plant Layout

The early works schedule has allowed civil works to commence on site and allowed engineering works to progress with SMS group. In our visit (Figure 1) the advancement of the site is apparent. The site has been levelled, retaining walls are nearly completion, geotech testing continues and the first steel work for the maintenance workshop has been erected (Figure 2).

**Figure 1: Malaysian Plant Layout**



*Source: Petra Capital*

**Figure 2: Opstaan Yster ceremony**

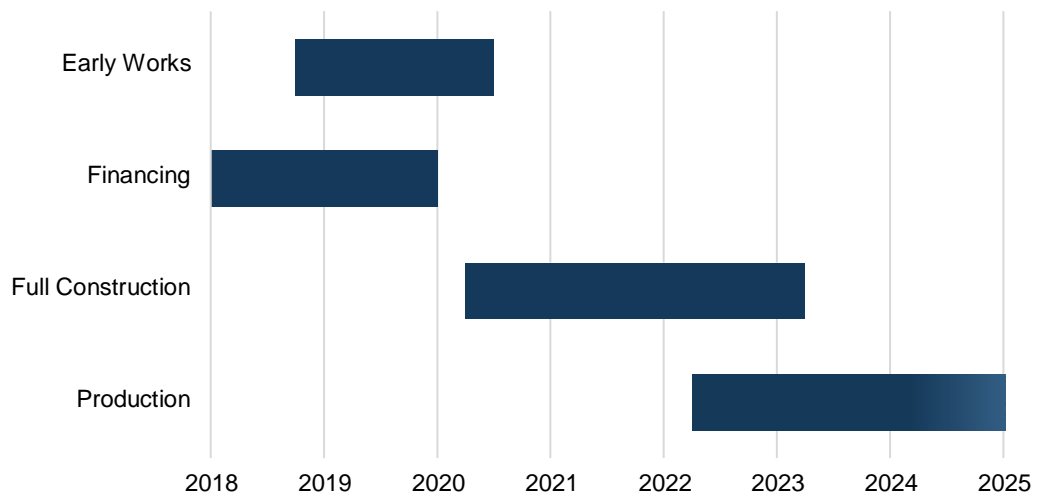


Source: SMS Group

**Timeline**

We make minor revisions to our timeline to reflect the early works and delays to financing. We also extend the duration of construction to better reflect the EPC schedule. Our forecasts reflect financing completion in CY'19, with the full construction schedule to commence in CY'20. First production and cash flow through commissioning is expected in CY'22. We believe this revised timeline to be conservative with scope for positive revisions as finance is received and the project advances.

**Figure 3: Timeline**



Source: Petra Capital

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