

# Centaurus Metals Limited

## EV Materials

Australian Equity Research

19 June 2023

Rating <b>SPECULATIVE BUY</b>	Price Target <b>A\$1.60</b>
CTM-ASX	Price <b>A\$0.89</b>

**Market Data**

52-Week Range (A\$) :	0.67 - 1.25
Avg Daily Vol (000s) :	740.75
Shares Out. (M) :	428.6
Market Cap (A\$M) :	381.5
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0



Priced as of close of business 19 June 2023

Centaurus Metals Limited (ASX:CTM) is a nickel sulphide focussed developer aiming to bring the 100%-owned Jaguar Project into production by 2026. The project is located in the world-class Carajás Mineral Province in Brazil. Scoping Studies for both an upstream mining operation to produce nickel sulphide in concentrate, and a downstream value-add scenario to produce +20ktpa of nickel in sulphate have been completed. A DFS is due in the DecQ'23 with FID scheduled for the late-2024.

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## Jaguar unencumbered and open to off-take

**What has happened?** Centaurus Metals (CTM-ASX) has acquired 100% of the off-take rights for all Jaguar nickel products from Vale, in exchange for an increase in Vale's Net Operating Royalty over the project. The royalty for nickel sulphate product will increase by 1.2% (to 1.75%), with the royalty for nickel concentrate and other products produced from Jaguar to increase by 1.25% (to 2%). On our modelling for a 20-year mine life from 2027, the additional royalty has a net present value (12%) of A\$20m.

**What does it mean?** This now provides CTM with unencumbered control and optionality over future marketing and sales of Jaguar's nickel sulphate product. We were previously concerned that Vale's option meant the off-take would not be as competitive as it could have been if a number of parties were 'in the room'. Extinguishing this now provides opportunity for competitive off-take discussions with third parties. We also see this as positive news as it opens the doors to funding through equity investment or prepayments in addition to off-take, and increases the chances of corporate takeover opportunities in CTM, in our view. Given Vale still has a vested interest by way of a royalty, we still expect future support in terms of infrastructure sharing arrangements, etc.

**Did Vale not want off-take?** Vale is a ~US\$65bn business in a state of flux as it de-merges business units into iron ore (Brazil) and base metals (Canada, Brazil, and Indonesia). It is also seeking an equity sell-down of up to 10% in Vale Base Metals (VBM) business. Put simply, Jaguar is not of meaningful scale for Vale. CY23 nickel in concentrate production across the broader Vale business is expected to total ~170kt from mines including Sudbury, Voisey's Bay, and Onça Puma (in Brazil). This is in addition to ~350kt of copper and ~315mt of iron ore. Jaguar's estimated ~20ktpa of nickel sulphate is not of meaningful scale, nor is it a product that Vale currently produces. The reason Vale dealt Jaguar to CTM in 2019 was due to lack of scale, and despite CTM growing the resource 3x since then, it still doesn't move the dial for the US \$65bn giant; however, Jaguar is substantial to the A\$380m (US\$260m) CTM.

**How did we get here?** Recall that as part of the 2019 acquisition terms for Jaguar, previous owner Vale agreed to enter into a future off-take agreement with CTM whereby Vale could purchase 100% of the production from the project on standard arm's length prevailing market prices.

**Other royalties payable:** In addition to the Net Operating Revenue Royalty mentioned above and as previously disclosed, CTM continues to assume the previous obligation of Vale to the Brazilian National Bank for Economic and Social Development (BNDES) for a 1.8% Net Operating Revenue Royalty on concentrate (to be adjusted down for any value-add product such as nickel sulphate). A government royalty of 2% on the value of concentrate sales revenue also applies to Jaguar ore. All up, we now model total royalties of 4.47% which include a small discount to account for the premium sulphate production expected at Jaguar.

**Potential upcoming catalysts:** CTM will now seek third-party off-takers for its product and potential funding partners. The DFS is also due later this year. We recently outlined [our expectations for the Jaguar DFS](#). FID for the project is expected in the SepQ'24.

**Valuation and recommendation:** Extinguishing of the Vale off-take is very positive news, in our view, but challenging to value at this juncture. We look to the outcomes of CTM progressing off-take and potential funding discussions with third parties over the coming 6-12 months. The additional royalty payments add negligible cost to our valuation and therefore our price target remains \$1.60. We have a SPECULATIVE BUY rating.

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## Investment Recommendation

Date and time of first dissemination: June 19, 2023, 08:02 ET

Date and time of production: June 19, 2023, 08:02 ET

## Target Price / Valuation Methodology:

Centaurus Metals Limited - CTM

Our price target (NPV12%) is on a fully diluted basis and risked 90% to account for changing scope of the project. Our project valuation is based on our interpreted development/production scenario at Jaguar as outlined in the Value-Add Scoping Study and latest resource. Given the early stage of development of the project along with the financing and permitting stages to progress through, we have applied an 90% risk weighting to our project valuation to capture project and financing risks. Our net asset valuation per share is based on a fully financed scenario inclusive of equity dilution and fully drawn project debt.

## Risks to achieving Target Price / Valuation:

Centaurus Metals Limited - CTM

### Financing risks

As an exploration and development company with no material income, CTM is highly reliant on equity and debt markets to fund development of its assets and progress its regional exploration pipeline. Further, we can make no assurances that accessing these markets will be done without further dilution to shareholders.

### Exploration and development risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further mineral resources nor that the company will be able to convert the current Mineral Resource into Ore Reserves. The Scoping Studies completed to date are at a low (+/-40%) level of accuracy and present both upside and downside risk to our valuation.

### Operating risks

If/when in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

### Commodity price and currency fluctuations

As with any development company, CTM is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

### Geopolitical risks

CTM's key asset is located in Brazil, which is considered an emerging market. As such, CTM, through the Jaguar Nickel Sulphide Project, carries a higher degree of economic, political, social, legal and legislative risk. Brazil has a well-established and stable mining industry.

**Distribution of Ratings:**

**Global Stock Ratings (as of 06/19/23)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	609	65.27%	22.00%
Hold	137	14.68%	10.95%
Sell	16	1.71%	0.00%
Speculative Buy	157	16.83%	44.59%
	933*	100.0%	

\*Total includes stocks that are Under Review

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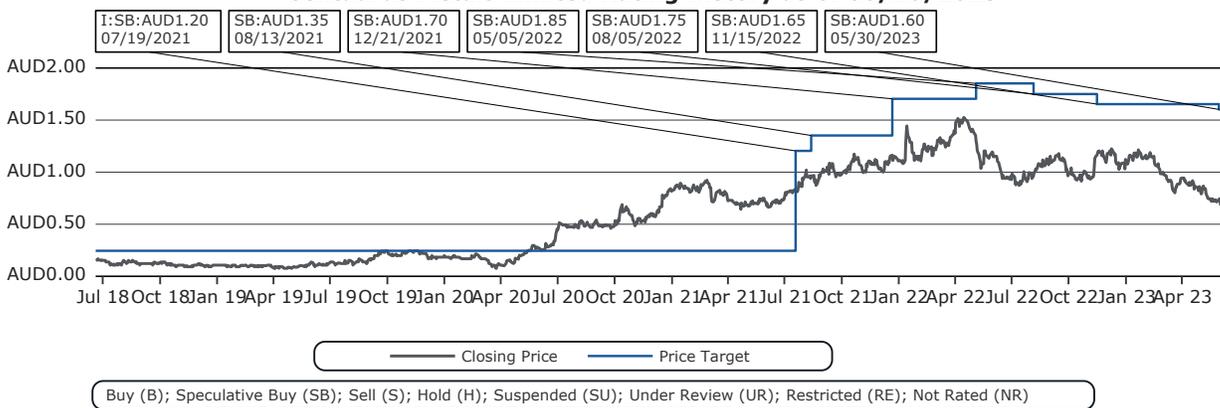
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**Centaurus Metals Limited Rating History as of 06/16/2023**



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