

Ticker: CTM AU

Net cash: A\$28m

Project: Jaguar

Market cap: C\$172m

Price: A\$0.53/sh

Country: Brazil

RECOMMENDATION (unc): BUY

TARGET PRICE(unc): A\$0.90/sh

RISK RATING: HIGH

While regional exploration targets are common to gold juniors 'easily' able to bolt on satellites, this process doesn't work with more typical magmatic nickel deposits restricted to 'following tubes to depth'. This is where Centaurus' unique (for nickel sulphide) geology comes into play – as a hydrothermal deposit, structural controls mean multiple 'satellites' exist, paving the way for discoveries to continue. We like Centaurus because this is only a minor part of the investment thesis, as the existing resource is already one of the largest 'high grade', and certainly largest pittable, undeveloped nickel sulphide deposits globally. Unlike gold exploration, nickel exploration benefits from the 'silver bullet' of EM conductors. Conductors at Filhote, Tigre, and Leao are of course speculative, but look extremely interesting to us. Separately, it is pleasing to see progress on the infill proceed at such pace, with an updated MRE (targeting M&I) due year end and >20ktpa PEA in 1Q21. Thus we see potential for a larger operation than we modelled (15Mt of the 41Mt total resource / 18ktpa production) to act as catalysts. Between underlying scarcity value, MRE, scoping including potential upsize, and now with a flyer on new discoveries, Centaurus remains a conviction name for us. Advantages of Brazil over Australia are (i) the low costs associated with a weak real (ii) lower capex (predominantly in-country P&E) and (iii) cheap hydro power at <10c/kWh. This opens the door to POX (pressure oxidation) as payability in Brazil is ~ 99% compared to ~ 75% in Australia as power costs are too high. Combined with 15% tax for Y1-10, and A\$28m cash to execute on the above, there is a lot to like about this company. **We maintain our BUY rating and A\$0.90/sh PT based on 0.4xNAV_{7%-14,000}**. This excludes an underground, and a larger lower-grade operation. Given recent guidance of >20ktpa we will now review our inputs with infill results as published, noting that 1xNAV for our published 22ktpa scenario including 320ktpa of UG feed sits at A\$746m or A\$2.47/sh.

Regional exploration and PEA work points to larger than modelled operation

Centaurus has identified 10 high-priority undrilled greenfield nickel and PGE **exploration targets** based on airborne EM survey, ground magnetics and soils. Drilling starts next week with a new RC rig. Targets extend well beyond the existing resources, with coincident geophysical and soil anomalies on the top three targets extending over 1.1km (historic 18m @ 0.35g/t Pd), 2.5km (three historic holes only including 3m @ 1.1% Ni) and 1.0km (no prior drilling), respectively. Last week the company also provided a **development update** noting a targeted >20ktpa production rate in the 1Q21 Scoping Study. Four rigs undertaking infill work on the main deposit to delineate sufficient M&I for a year-end resource update and 1Q21 PEA. Various scenarios are being evaluated, including POX. POX requires abundant water, low-cost neutralising material, skilled labour, and most importantly low-cost power, all of which are present here (*by not in Australia*). The scoping study is to be followed by an **environmental approval** submission targeted for 2Q21, by which time TMF work will be to requisite PFS standard.

Recommendation: maintain BUY rating and A\$0.90/sh PT

We model Centaurus on a DCF basis with 15Mt of 1.5% Ni mined over ten years at US\$14,000/t for 1xNAV_{7%-14500} of A\$590m, applying a 0.4xNAV for our A\$0.90/sh PT. We exclude any underground from our valuation, but note our NAV lifts to A\$746m when including a 2.5Mt inventory 2.75% Ni underground operation, taking production from the above 18ktpa to 21ktpa. Similarly, given the 48Mt @ 1.1% total resource, once infill drilling completes, we see potential for a much later reserve / run-rate than our modelled 15Mt / 1.5Mtpa operation modelled currently.

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Why we like Centaurus Metals

1. Metal in the ground dwarfs peers, top quality low As, low Mg concentrate
2. Nearby rail and cheap power lower build costs, open door to POX
3. Potential underground or upsizing >20ktpa not factored into our valuation
4. Near-mine upside on multiple undrilled conductors

Catalysts

- 4Q20: 1 RC rig drilling near-mine targets
- 4Q20: MRE update (M&I focus)
- 1Q21: Scoping study
- 2Q21: Lodge environmental license

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Ticker: CTM AU	Price / mkt cap: A44c/sh / A\$115m	P/NAV today: 0.23x	Country: Brazil
Author: B Sallier / C Tonkin	Rec/0.4xNAV7% PT BUY, A90c/sh	1xNAV7%₂₀₂₁ FF FD: A\$1.31c/sh	Asset: Jaguar

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Ni price (US\$/t)	14,000	14,000	14,000	14,000	14,000
Ni price (US\$/t, payable)	10,500	10,500	10,500	10,500	10,500
1xNAV project valuation*	A\$m	o/ship	NAVx	A\$/sh	
Jaguar NPV (build start)	538	100%	0.4x	0.71	
UG expln (4% in-situ ex SCP mined)	41	100%	1.0x	0.14	
Cash (2Q20)	5.0	100%	1.0x	0.02	
Cash from ITM options	6.0	100%	1.0x	0.02	
1XNAV A\$ @ 2Q20	A\$590m			0.88	

*Build start, ex fin. cost + G&A, dil. for optns not build P/NAV today: 0.23x

Asset value: 1xNPV project @ build start (A\$m, ungeared)*					
Asset NPV (A\$m)	11,500	12,750	14,000	15,250	16,500
9.0% discount	294	447	599	752	904
7.0% discount	355	524	694	863	1,032
5.0% discount	427	616	804	993	1,182
Ungeared project IRR:	23%	31%	37%	44%	50%
Asset NPV @ 1.5% (A\$m)	10.0Mt	12.5Mt	15.0Mt	17.5Mt	20.0Mt
US\$12,750/t	377	451	524	598	671
US\$14,000/t	500	597	694	790	886
US\$15,250/t	623	743	863	982	1,101
Avg production (Kt Ni pa):	12.0	13.2	14.4	15.6	16.8
Asset NPV @ 15Mt (A\$m)	1.00%	1.25%	1.50%	1.75%	2.00%
US\$12,750/t	(2)	200	401	603	804
US\$14,000/t	89	314	538	762	986
US\$15,250/t	180	427	674	921	1,167
Avg production (Kt Ni pa):	18.0	21.0	24.0	27.0	30.0

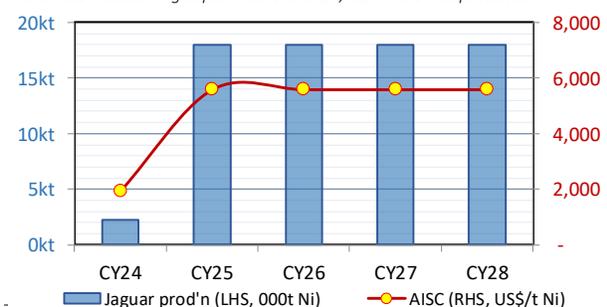
*Project level NPV, excl finance costs and central SGA, discounted to build start

SOTP company valuation	2Q20	2Q21	2Q22	2Q23	4Q24
Jaguar NPV	433	464	496	538	839
Centra G&A and finance cost	(49)	(43)	(38)	(36)	(28)
Net cash	5.0	9.5	2.0	73	(127)
Cash from ITM options	6.0	6.0	6.0	6.0	6.0
NAV (A\$m)	396	436	467	581	690
FD share count (m)	302	329	329	483	483
1xNAV7%/sh FF FD (A\$/sh)	1.31	1.33	1.42	1.76	2.10
ROI (% pa)		201%	79%	59%	48%

Exit value: 1xNAV/sh company @ 2024 first production (A\$, geared)^A					
1xNAV (A\$/sh)	11,500	12,750	14,000	15,250	16,500
9.0% discount	1.06	1.49	1.93	2.36	2.79
7.0% discount	1.17	1.63	2.10	2.56	3.02
5.0% discount	1.30	1.79	2.29	2.78	3.28

Production (Y1 from 3Q2)	CY24	CY25	CY26	CY27	CY28
Jaguar production (000kt Ni)	2.3	18.0	18.0	18.0	18.0
C1 cost (US\$/t Ni)	1,839	5,402	5,402	5,402	5,402
AISC cost (US\$/t Ni)	1,932	5,587	5,587	5,587	5,587

AISC = C1 + sustaining capex + central G&A, C3 = AISC + depreciation



Source: SCP estimates

Resource/Inventory	Mt	Ni %	Mt	Ni %
	2Q20 JORC		SCP inventory	
M&I	11.5	1.29%	15.0	1.50%
Inferred	36.4	1.01%		
Total	48.0	1.08%	Total	15.0 1.5%

Funding: uses		Funding: sources	
Capex (A\$m)	222	Cash 2Q20 (A\$m)	5.0
Drilling/FS cost (A\$m)	14.3	SCPe debt (A\$m)	133.5
Working capital (A\$m)	-	SCPe DFS equity @ spot (A\$m)	12.0
G&A and fin. cost (A\$m)	7.2	SCPe equity, 30% prem. (A\$m)	111.2
Total uses: group (A\$m)	244.0	Total sources (A\$m)	261.7

Share data (m)	Basic	FD	2H20	3Q22 (FF FD)
Shares (m)	261.5	302	329	483

Ratio analysis	CY20E	CY21E	CY22E	CY23E	CY24E
Shares out (m)	288.8	288.8	442.1	442.1	442.1
EPS (Ac/sh)	-	-	-	-	-
CFPS before w/c (A\$/sh)	-	-	-	-	-
EV (A\$m)	113.8	121.3	193.8	196.2	321.3
FCF yield (%)	-	-	-	-	-
PER (x)	-	-	-	-	-
P/CF (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	33.2x

Income statement	CY20E	CY21E	CY22E	CY23E	CY24E
Revenue (A\$m)	-	-	-	-	32.8
COGS (A\$m)	-	-	-	-	22.1
Gross profit (A\$m)	-	-	-	-	10.8
G&A (A\$m)	1.5	1.6	2.1	2.5	1.0
Exploration (A\$m)	6.6	6.0	3.0	-	-
Finance costs (A\$m)	-	-	-	-	11.7
Tax (A\$m)	-	-	-	-	0.7
Other (A\$m)	0.2	0.2	0.4	0.0	2.6
Net income (A\$m)	(8.3)	(7.9)	(5.4)	(2.5)	(5.2)

Cash flow statement	CY20E	CY21E	CY22E	CY23E	CY24E
EBITDA (A\$m)	(8.4)	(8.0)	(5.5)	(2.9)	9.7
Add share based (A\$m)	0.3	0.4	0.4	0.4	0.1
Net change wkg cap (A\$m)	-	-	-	0.3	10.5
Cash flow ops (A\$m)	(8.0)	(7.5)	(5.0)	(2.4)	(12.8)
PP&E - build + sust. (A\$m)	0.4	-	-	111.2	112.3
PP&E - expl'n (A\$m)	-	-	-	-	-
Cash flow inv. (A\$m)	(0.4)	-	-	(111.2)	(112.3)
Share issue (A\$m)	12.3	-	-	111.2	-
Debt draw (repay) (A\$m)	-	-	-	-	133.5
Cash flow fin. (A\$m)	12.3	-	-	111.2	133.5
Net change in cash (A\$m)	3.5	(7.5)	(5.0)	(2.4)	8.3

Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (A\$m)	13.2	5.7	0.7	(1.6)	6.7
Acc rec. + invet. (A\$m)	0.3	0.3	0.3	0.1	17.8
PP&E & expl'n (A\$m)	3.7	3.7	3.7	114.9	224.4
Total assets (A\$m)	17.2	9.7	4.7	113.3	249.0
Debt (A\$m)	-	-	-	-	133.5
Accounts payable (A\$m)	0.6	0.6	0.6	-	7.3
Others (A\$m)	13.5	6.0	1.0	(1.6)	24.5
Total liabilities (A\$m)	1.1	1.1	1.1	0.5	141.3
Shareholders' equity (A\$m)	141.1	141.5	141.9	253.6	253.7
Reserves (A\$m)	(6.6)	(6.6)	(6.6)	(6.6)	(6.6)
Retained earnings (A\$m)	(118.4)	(126.3)	(131.7)	(134.2)	(139.3)
Liabilities + equity (A\$m)	17.2	9.7	4.7	113.3	249.0

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UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	22

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