



Queensland Pacific Metals Ltd (QPM.ASX)

LG & POSCO Stake and Offtake Offer Ringing Endorsement

Event:

- We initiate research coverage on Queensland Pacific Metals Ltd (QPM.ASX).

Investment Highlights:

- Queensland Pacific Metals Ltd (QPM)** is an ASX listed company developing its high margin Townsville Energy Chemicals Hub (TECH) Project (100% interest), comprising direct nickel processing from imported limonite ore to produce nickel sulphate, as well as a portfolio of valuable co-products: cobalt sulphate, hematite, and high purity alumina (HPA).
- Significant validation from LG, POSCO investment and offtake:** we see a ringing endorsement of both the project and technology with the recently announced binding offtake with LG Energy Solution and POSCO, agreeing to a seven year supply deal of 10ktpa nickel and 1ktpa cobalt. The companies have agreed to make a US\$15M investment at a 17% premium to 1-month VWAP. Passing extensive and rigorous due diligence is a strong technical endorsement of TECH.
- Courtship from multinational MOU partners triggers 2.5x expansion:** in addition to first movers LG and POSCO, Samsung SDI has also expressed interest in nickel and cobalt offtake and contributing to project finance to secure supply. Management has considered offtake interest strong enough to trigger 2.5x expansion plans in the TECH Project to a 1.5Mtpa ore case.
- Robust economics in high margin direct nickel processing:** updated PFS (released April 2020) highlights include post tax NPV₈ \$1,470M and IRR of 31% for now superseded 600ktpa ore project, and rapid payback of 3.6 years. Capex of US\$370M is a fraction of the HPA cost at much better capital intensity.
- Direct Nickel™ processing technology highlights sustainable production and eco credentials.** Innovative alternative to HPA laterite processing, without requirements for high pressure and temperature, and lower risk of operational delays and technical failure. Almost complete closed acid loop in processing avoids common environmental issues including wet tailings, acid mine drainage.
- Cash of \$16M at March 2021; no debt.** Already funded for its DFS, additional US\$15M investment from LG, POSCO will be used to kick start FID timelines.

Earnings and Valuation:

- We forecast commissioning and ramp in FY24e with **first full year of earnings in FY25e to deliver EBITDA of \$350M and NPAT of \$160M.**
- We have derived a risked valuation of \$0.38 per QPM share (0.69x NPV),** underpinned by an unrisks NPV₁₀ of A\$1,507M for the TECH Project for a 1.5Mtpa expansion case, assuming first product in FY24e and 12 month ramp.

Recommendation:

- We initiate coverage of QPM with a **Speculative Buy recommendation and price target of \$0.38/share**, due to its sustainable, high margin direct nickel processing project, with suite of battery material co-products.
- Catalysts for the stock** include: 1) Definitive Feasibility Study for TECH Project and expansion case; 2) FEED and FID decisions and commencement of the TECH Project; 3) customer offtake MOUs and marketing relationships especially LG Energy Solution, POSCO, Samsung; 4) updates on financing arrangements; 5) updates on capacity upgrade; 6) environmental approvals.

Disclosure

The analyst own 62,500 QPM shares. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 12,532,375 QPM shares and 10,000,000 QPM options with \$0.03 exercise and September 2023 expiry. Cranport Pty Ltd owns 11,900,000 QPM shares. Foster Stockbroking acted as Sole Lead Manager to the \$4.4M placement of 293.3M QPM shares at \$0.015 per share in November 2020 and the \$15M placement of 187.5M QPM shares at \$0.08 per share in March 2021. Foster Stockbroking received fees for these services. Refer to end of report for details.

Recommendation

Speculative Buy
Previous N/A
Risk High

Price Target (A\$/share, risked)

\$0.38
Previous N/A

Share Price (A\$)

\$0.165

ASX Code QPM

52 week low - high (A\$) 0.013-0.19

Capital structure

Shares on Issue, pro forma* (M) 1,324.7

Market Cap, pro forma, undil. (A\$M) 219

Net Cash/(Debt), pro forma (A\$M) 35

EV (A\$M) 183

12mth Av Daily Volume ('000) 11,880

* adjusted for LG Energy Solution, POSCO investment.

Y/e Jun A\$	FY20a	FY21e	FY22e	FY23e
Sales, \$M	0.0	0.0	0.0	0.9
EBITDA adj. \$M	-4.4	-7.3	-7.8	-12.6
NPAT adj. \$M	-4.5	-7.5	-7.6	-16.2
EPS adj c	-0.9	-0.8	-0.5	-0.4
PER (x)	nm	nm	nm	nm
Dividend c	0.0	0.0	0.0	0.0

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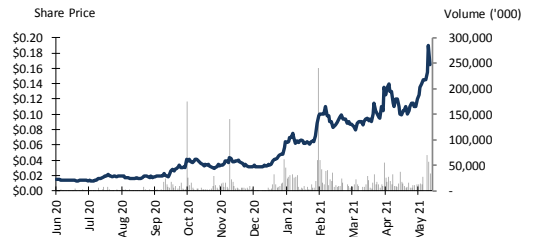
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