



## Peak Rare Earths Ltd (PEK.ASX)

### Ngualla to Sate Shenghe's International Ambition

#### Event:

- Shenghe Resources stake; share consolidation; revised PT.

#### Investment Highlights:

- Downstream expertise to replace financial sponsor:** PEK has a new substantial shareholder in Shenghe Resources, who replaces Appian Pinnacle, paying \$0.99/sh at a 24.5% premium. We view this as a positive development, as the Shanghai listed US\$4.9b rare earths refiner brings practical downstream expertise and demand for concentrate.
- International agility and remit, thirsty for concentrate:** Shenghe clearly has international ambition which has played out with stakes in the recently revived MP Materials (MP.NYSE), Greenland Minerals (GGG.ASX), and Vietnam Rare Earth Co. Ltd. Shenghe's 15ktpa separation and 12ktpa processing capacity requires ore and concentrate feedstock, supplemented by international sources. While Shenghe is not currently deemed a SOE, we note the Chinese sector has undergone recent consolidation; the situation remains dynamic.
- High grade, long life, massive resource likely the attraction:** we think Shenghe is attracted to PEK's Ngualla as an alternative high grade, long life source of feedstock, which makes strategic sense for Shenghe given MP's Mountain Pass grade and historical processing queries and GGG's Kvanefjeld licencing issues. PEK has reiterated its own unchanged downstream strategy at Teesside; in our view Ngualla is sufficiently large to accommodate both Shenghe and PEK's appetite for concentrate.
- Sector and price environment go from strength to strength:** RE sector continues to enjoy strong NdPr prices, which has broken through US\$160/kg, an almost fourfold increase since January 2020, and an eleven year high.

#### Earnings and Valuation:

- We increase our PEK valuation to \$2.46/share** (0.8x P/NPV; previously \$1.80/sh post consolidation and 0.8x P/NPV). Our valuation is underpinned by our NPV<sub>10</sub> of A\$771M for Ngualla and Teesside, assuming US\$365M initial capex for 2,800tpa NdPr 99% oxide production. We assume first production in FY25e, with an increased LT NdPr oxide price of US\$80/kg (ex VAT, prior US\$70/kg).
- We note **upside potential to our valuation** from risk discount unwind, sustained strong NdPr prices, and lower future dilution, while improvements may arise from the upcoming optimised BFS, though this will be likely tempered by cost inflation. Our unrisks valuation is \$3.07/share (prior \$2.20/share post consolidation).

#### Recommendation:

- We maintain our **Speculative Buy recommendation for PEK with an increased PT of \$2.50/share (prior \$1.80 post consolidation)** in line with our risked valuation. The Shenghe investment is a positive, while the company is still targeting framework agreement in 1Q22 and FID at CY22 end.
- Catalysts for the stock** include: 1) formalising of Special Mining Licence by the Tanzanian government and framework negotiation; 2) optimised BFS; 3) financing; 4) offtake agreements; and 5) FID and construction.

#### Disclosure

The analyst does not own PEK securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 275,868 PEK shares. Cranport Pty Ltd owns 435,842 PEK shares. Refer to end of report for details.

**Foster Stockbroking acted as Joint Lead Manager to the \$30M placement of 333.3M PEK shares at \$0.09 in September 2021, and provides equity capital markets and corporate advice to PEK. Foster Stockbroking has received fees for these services.**

Recommendation	Speculative Buy
Previous	Speculative Buy
Risk	High
<b>Price Target</b>	<b>\$ 2.50</b>
Previous Target (post-consol)	\$ 1.80
<b>Share Price (A\$)</b>	<b>\$ 0.80</b>
ASX Code	PEK
52 week low - high (A\$)	0.66-1.40
<b>Valuation (A\$), risked</b>	<b>\$ 2.46</b>
Valuation Methodology	DCF
<b>Capital structure</b>	
Shares on Issue (M)	199
<b>Market Cap (A\$M)</b>	<b>159</b>
Net Cash/(Debt) (A\$M, est.)	15
<b>EV (A\$M)</b>	<b>145</b>
Options and warrants (M)	13
12mth Av Daily Volume ('000)	598
<b>Board</b>	
Tony Pearson	Non-Executive Chairman
The Hon. Abdullah Mwinyi	Non-Executive Director
Giselle Collins	Non-Executive Director
Giles Stapleton	Non-Executive Director
Bardin Davis	Managing Director
<b>Major Shareholders</b>	
Shenghe Resources	19.9%

#### Share Price Graph



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