



## Peak Resources Ltd (PEK.ASX)

*Making Progress on Ngualla and Teesside*

### Event:

- Updated BFS commencement; technical and executive appointments; Teesside lease; ANFR Royalty resolution; revised PT.

### Investment Highlights:

- Progressing on a number of fronts:** the company has made a number of executive appointments to bolster the completion of an updated BFS, recently commenced with target release early CY22e. PEK has also executed a 250-year lease for a 19ha site in Wilton UK, which will be the site for its downstream RE refinery. UK processing is a big draw, offering proximity to European markets and input reagents in a region desperate to reverse urban decay. The recent termination of the Appian LOM 2% gross royalty will enable the award of the SML on completion of a negotiated Framework Agreement.
- Tanzanian Cabinet SML approval:** with the previously announced approval from the cabinet of the Tanzanian government, PEK has overcome a major regulatory approval and taken a significant positive step forward in developing Ngualla. PEK has concurrent work streams to progress finance, offtake, and development discussions, and are targeting construction commencement in September 2022.
- Strong sector and price environment:** RE sector continues to enjoy strong NdPr prices, maintaining a CYTD average of US\$80/kg, and more than double the low point of CY20. We note sustained favourable sector trends including EV/battery sector theme and the growing geopolitical importance of ex-China RE supply. Recent investor appetite for ESG credentials can be sated by the low radioactivity in the Ngualla resource, avoiding associated environmental issues.
- Cash of \$23M (est.) post placement and less ANRF payment, with no debt.** Recent placement enables ample runway to complete updated BFS and prepare the Ngualla-Teesside project for construction commencement in 4Q22.

### Earnings and Valuation:

- We increase our PEK valuation to \$0.18/share (0.8x P/NPV; previously \$0.07/sh and 0.75x P/NPV).** Our valuation is underpinned by our NPV<sub>10</sub> of A\$509M for Ngualla and Teesside, assuming US\$365M initial capex for 2,800tpa NdPr 99% oxide production. We now assume first production in FY25e (prior FY24e) and long term price of US\$70/kg (prior US\$60/kg (ex VAT) for NdPr 99% oxide. We have also updated our LT AUDUSD assumption 0.75 (prior 0.73).
- 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. Our unrisks valuation is \$0.22/share.

### Recommendation:

- We maintain our **Speculative Buy recommendation for PEK with an increased PT of \$0.18/share** in line with our risked valuation; PEK has shown good progress senior appointments to bolster its recently commenced updated BFS, resolution of the ANRF royalty, and execution of Teesside lease, after having navigated a difficult period in negotiating its SML. PEK has a long life high grade asset in Ngualla and potential value capture from downstream RE processing.
- 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 2,405,648 PEK shares. Cranport Pty Ltd owns 3,888,889 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 \$3.5M placement of 109.375M PEK shares at \$0.032 in October 2020. Foster Stockbroking received fees for this service.**

**Foster Stockbroking provides equity capital markets and corporate advice to PEK and has received consideration for this service.**

Recommendation	Speculative Buy
Previous Risk	Speculative Buy
Price Target	High
Previous Target	\$ 0.07
Share Price (A\$)	\$ 0.091
ASX Code	PEK
52 week low - high (A\$)	0.027-0.14
Valuation (A\$), risked	\$ 0.18
Valuation Methodology	DCF
Capital structure	
Shares on Issue (M)*	2,012
Market Cap (A\$M)	183
Net Cash/(Debt) (A\$M, est.)	23
EV (A\$M)	160
Options and warrants (M)	123
12mth Av Daily Volume ('000)	6,195

\* Pro forma, includes tranche 2.

### Board

Tony Pearson	Non-Executive Chairman
The Hon. Abdullah Mwinyi	Non-Executive Director
Giselle Collins	Non-Executive Director
Rebecca Morgan	Non-Executive Director
Bardin Davis	Managing Director

### Major Shareholders

Appian	21.7%
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### Share Price Graph



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## POSITIVE DEVELOPMENTS IN NGUALLA AND TEESSIDE

- PEK continues to make progress on both Ngualla and Teesside arms of its rare earths project:
- **Technical and Commercial Executive appointments:** recent senior appointments announced on 8 September include: Lello Galassi as Head of Development & Operations, Mark Godfrey as Head of Technical Services, Gavin Beer as Consulting Metallurgist, and Matthew Horgan as General Manager, Corporate Development & Finance.
- **BFS Update has Commenced:** target release in early CY22, with above senior appointments to progress this work stream. A refresh of the price deck amid much improved market dynamics and pricing environment will be obvious catalyst from the updated BFS, while further work on flotation optimisation will provide even more comfort on PEK's lower risk processing route.
- **Appian royalty resolved:** the company will shortly repay the ANRF Royalty Facility and accrued interest, announced in August. As a consequence of the US\$10M payment, PEK no longer needs to pay the 2% LOM gross revenue royalty to Appian, and has been released from associated security arrangements. The royalty termination will also allow future transfer of SML for the Ngualla Project.
- **Tanzanian Cabinet Awards Special Mining Licence:** The company had previously announced in July that it has been awarded a Special Mining Licence for its Ngualla Rare Earth project. The SML enables the company to progress the project with regulatory certainty over its RE mine at Ngualla in Tanzania. With approval from the cabinet of the Tanzanian government, PEK has overcome a major regulatory approval, and taken a significant positive step forward in developing Ngualla. PEK is concurrently seeking to progress finance, offtake, and development discussions, and continue to target commencement of construction in September 2022. Formal award of the SML will be coincident with the finalisation of the Framework Agreement.
- **Teesside UK Rare Earth Refinery Site Lease executed in June:** a 250 year lease has been executed over a 19 hectare site within the Wilton International Site, which PEK contemplates will be the site of its planned rare earth mineral processing and refining facility, including storage, administration, and associated infrastructure.
- **NdPr Price Strength continues:** RE sector continues to enjoy strong NdPr prices, maintaining a CYTD average of US\$80/kg, and more than double the low point of CY20. We note sustained favourable sector trends, including EV/battery sector theme, and the growing geopolitical importance of ex-China RE supply. We think recent investor appetite for ESG credentials can be sated by the low radioactivity in the Ngualla resource, which avoids any accompanying environmental issues.

## VALUATION – INCREASED TO \$0.18/SHARE, RISKED (PRIOR \$0.07)

- We derive a risked valuation of \$0.18/share for PEK (prior \$0.07/share). Our valuation is underpinned by NPV<sub>10</sub> DCF of \$509M for the Ngualla Project and Teesside Refinery. We have an updated risk weight of 80% (prior 75%) to reflect the progress in the award of the SML and resolution of the Appian royalty as the company works through its financing and offtake. Our unrisks valuation is \$672M or \$0.22/share for PEK.
- We have an updated long term AUD/USD of 0.75 (prior 0.73) and increased long term price for NdPr 99% oxide of US\$70/kg (prior US\$60/kg). We continue to consider only the Reserve estimate in our valuation; we further note the Reserve represents only 22% of the existing Resource. We see future upside potential for the company to convert Resource to Reserve, with some 90% of the Resource in the Measured or Indicated categories, however we do not include these in our present valuation.



- We now assume a fully diluted share number of 3,027M shares (prior 6,701M) as we account for lower dilutive impact from unpaid capital. We retain a 33% equity assumption of an unchanged US\$365M capex, or US\$121M.

Figure 1: PEK Valuation

Company Valuation	Unrisked A\$M	Unrisked, A\$/sh	Risked, A\$M	Risked, A\$/sh	1-Risk Factor
Ngualla and Teesside Corporate	509	0.17	407	0.13	80%
Cash	-24	-0.01	-19	-0.01	80%
Cash from equity raise	23	0.00	23	0.00	100%
Cash from options, ITM at valuation	161	0.05	128	0.04	80%
Cash from options, ITM at valuation	4	0.00	3	0.00	80%
<b>Valuation DCF, WACC 10%, nominal</b>	<b>\$672</b>	<b>\$0.22</b>	<b>\$542</b>	<b>\$0.18</b>	<b>80%</b>
Ordinary shares, M*	2,012				
Options, M	123				
Shares from equity raise, M	892				
<b>Fully diluted shares, M</b>	<b>3,027</b>				

Source: Company, Foster Stockbroking estimates. \* Pro forma includes tranche 2 of recent placement.

### MAINTAIN SPECULATIVE BUY, PRICE TARGET \$0.18 (PRIOR \$0.07)

- We continue to recommend PEK as a Speculative Buy with an increased price target of \$0.18/share (prior \$0.07; 0.8x P/NPV) as the company evidences progress on a number of fronts including a host of technical and executive appointments to bolster its recently commenced updated BFS, resolution of the ANRF royalty, and execution of Teesside lease, after having navigated a difficult period in which it negotiated a successful path forward on the SML and the Tanzanian leg of its ambition.
- We maintain the view PEK has the long life, high grade Ngualla asset, and its proposed vertically integrated rare earth project allows it to maximise its value capture from downstream RE processing.
- We see a number of milestones for PEK in the near term, including:
  - Formal grant of the Special Mining Licence by the Tanzanian government;
  - Framework agreement negotiation to finalise fiscal regime governing Ngualla;
  - Financing;
  - BFS update with target release early CY22.
  - Offtake agreements; and
  - FID target of September 2022 and two year construction period.



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