

Neometals: To Slice or to Dice? That is the Question

The old Chinese curse goes “May you live in interesting times”. These certainly count as interesting, and perplexing, times in the Lithium space. The auguries for a massive demand surge are very strong while the flow of projects beyond those already under development is paltry indeed. And yet valuations of even the best proven movers and shakers have been wallowing. The pain is particularly poignant for Neometals Ltd. (ASX: NMT) because it has been doing everything right and has arrived at the producer category and has oodles of that precious commodity most other miners don’t have, namely cash, and yet its valuation has sagged 40% from last year’s highs.

Faced with such a situation managements can either act like “deer in the headlights” or be proactive. We attended an investors’ lunch in London this week which Neometals hosted and it was something quite out of the ordinary. For one there was a journalist present, which is surprisingly rare and also the ambassador of Bolivia was in attendance which was even more intriguing as Neometals has no Bolivian business. Apparently he was there due to the potential of NMT’s brine processing technology to be applied to that country’s renowned salares.

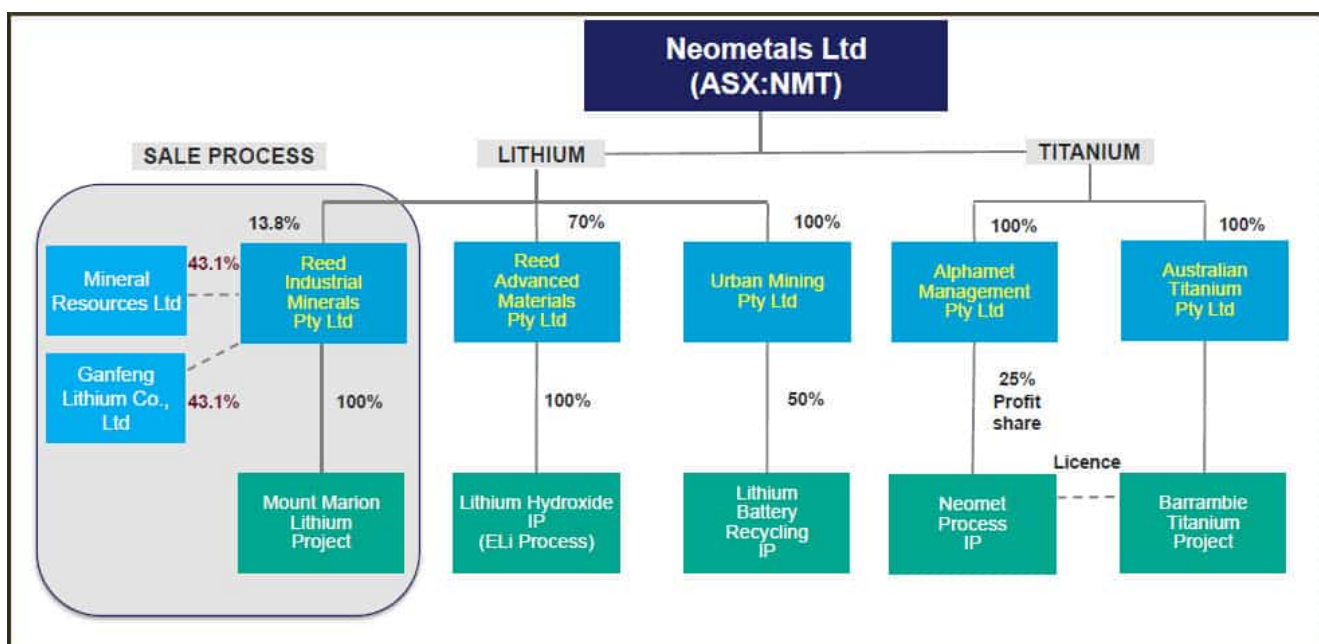
As the presentation progressed it became evident to the audience that Neometals had the potential (and maybe even the plan) to break itself up to maximize value and re-energise investor interest. This has prompted us to look at ways that the company might be “sliced and diced”.

What We Have Now

In the time that we have covered Neometals it has gone from being a multimetal explorer to being almost solely focused on

Lithium to now widening out its interests again but also moving downstream and into technology. The main verticals from our perspective are Lithium and Titanium but others might prefer to look at the company on a more horizontal division between Upstream and Downstream.

We prefer the former and we shall explain why. Firstly though we would add to the verticals should have a battery recycling business added as a third vertical. Below is an organogram that shows the current corporate structure.



The Logical Path

We would see the most attractive way to carve up this situation as being a division into a “chemical story” and a Titanium developer. The chemical story would be all the Lithium businesses, the battery recycling and the technologies as they pertain to Lithium, while the Titanium would be the Barrambie project and the Titanium technologies and a majority of the cashpile. The chemical story would then become a potential candidate for a NASDAQ listing where, depending on the spin, it can join the ranks of the highly-rated chemical stories listed in the US markets.

Going Chemical

To spin the Lithium aspect of the Neometals structure as a chemicals story is not exactly all that difficult. With the mining stake at Mt Marion being only a minority position to Ganfeng and yet with access to a share of the flow of ore, the planned Lithium Ion battery recycling plant, plus the various technologies for lithium processing and a lithium hydroxide plant being mooted, Neometals is not a bit of a chemical company, it is potentially a lot of a chemical company. The Big Three of the Lithium space (dare we say, cartel) are FMC, Albemarle (since its takeover of Rockwood) and SQM. All are listed in the US (SQM having an ADR). The current ratings on these are:

- FMC – P/E of 44 times
- SQM – P/E of 28.7 times
- ALB – P/E of 45 times

It's this type of powerful valuation that makes breaking out of the ratings given to miners (particularly on the ASX) a powerful temptation. In any case a spin out of the Lithium & recycling division would keep the ASX listing for both parts, just have the primary listing in the US.

Conclusion

The company might argue that the secret sauce(s) of the technology are the thing. We would argue instead that Titanium (and the technologies related thereto) can be standalone and the fact that it can be used in Lithium Titanate batteries is not sufficient case to argue that it is a "must have" for vertical integration with a Lithium operation.

Meanwhile having a residual position in Mt Marion gives cashflow and puts it in good company as all the Big Three that have stakes in producing mining operations. Keeping the Mt Marion stake gives some E to underpin a P/E.

We might also note that setting Barrambie "free" from the

existing structure (or making it the continuing company) would bring to the investing public's attention as asset for which there is currently no credit being given and create a pure play in the Titanium space.

Clearly good lithium prices, a strong demand outlook and actually having production (or a share thereof) is not good enough for mining investors. However by opting out of the mining rat-race and joining the more lucrative chemical company rat-race, Neometals will be showing itself to once again be ahead of the pack.