29 April 2019

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Altura Mining Limited

Diversified Metals and Mining

BUY

AJM A$0.13 **TARGET PRICE A$0.27**

Altura Mining Limited (AJM) has just declared commercial production of lithium from Stage 1 of its 100% owned Pilgangoora Lithium Project in Western Australia.

Successful completion of the project has laid the foundation for the creation of a globally significant new lithium producer with plans to commence Stage 2 which will double lithium production at relatively low costs.

Our valuation is a probability composite based on both current and potential opportunities incorporating Stage 1 and Stage 2 scenarios. The share currently appears undervalued but significant upside exists as AJM achieves operational goals and if Stage 2 is approved.

We value currently AJM at AUD571M or AUD0.27ps .

Company Data

Number of Shares	2,125.5 M
Market Capitalisation	$276.3 M
Free float (%)	66.6
12-month high/low	$0.40/$0.12
Average Daily Turnover ($m)	0.5
% S&P/ASX200	N/A
DDM Ranking	N/A
% All Ordinaries	N/A
GICS Industry Group	Materials

Source: FactSet, EverBlu Capital

Share price performance

Source: FactSet, EverBlu Capital

A Lithium Producer Is Born

Production Ramping Up

- AJM declared commercial production in March 2019, two years after breaking ground at its Pilgangoora Lithium Project.
- The process plant is producing a high quality, low impurity spodumene concentrate regularly exceeding the 6% (SC6) sought after by battery producers.
- Low levels of impurities, low moisture content and good sizing proportions are attractive to customers.
- Regular shipments have been established to its major clients, confirming supply chain integrity.

Stage 1 Offtake Committed

- AJM has secured offtake agreements with pricing based on market mechanisms with a floor of USD550/dmt SC6 and a ceiling of USD950/dmt SC6 until the end of 2020.
- Full Stage 1 annual production of 220kt has been taken up for a minimum period of 5 years as follows:
  - Lionergy (lithium compounds producer) – 100ktpa
  - Ganfeng Lithium (lithium compounds producer) – 70ktpa
  - Optimum Nano (battery producer) – 50ktpa
- Current off takers continue to be interested in the potential Stage 2 production of SC6 concentrate.
- Ganfeng Lithium has an option over 50% of stage 2 production.

Synergistic Benefits From Stage 2 Expansion

- The potential Stage 2 expansion provides a low risk opportunity to double production to 440ktps SC6.
- A DFS completed in April 2018 displayed compelling economics.
- Risks and costs of the Stage 2 expansion can be minimised by:
  - Utilisation of existing infrastructure to accelerate, development and cost efficiencies;
  - An understanding of the Stage 1 commissioning process;
  - Decrease in operating costs due to economies of scale;
  - Experienced operating team in place; and
  - Reduced funding requirements as cash flow established.

Strong Lithium Demand To Continue

- Robust market forces are expected to continue for foreseeable future due mainly to demand for batteries from electric vehicles.
- Between 2012 and 2017 global lithium demand grew at a CAGR of 11% from around 134kt to 229kt.
- CRU forecasts that the rate of growth will accelerate to 18% in the period 2017 to 2022, doubling lithium demand to 526kt LCE.
- Electric vehicle batteries seem set to account for over 80% of the total demand growth.
- Total battery applications are forecast to account for 93% of total demand growth.
- By 2022, lithium consumption in electric vehicles is expected to reach 54% of total lithium consumption compared with just 3% in 2012.

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Financial Summary

Year end 30 June

Assumptions	2018F	2019F	2020F	2021F
Exchange Rate (AUD/USD)	0.75	0.75	0.75	0.75
LC6 Price (USD/t)	0	650	650	650
LC6 Price (AUD/t)	0	867	867	867

Investment Summary	2018F	2019F	2020F	2021F
NPAT Reported	(12.8)	(17.1)	50.0	51.7
NPAT Underlying	(12.8)	(17.1)	50.0	51.7
EPS Reported	(0.7)	(0.8)	2.2	2.2
EPS Underlying	(0.8)	(0.9)	2.4	2.4
EPS Growth (%)	nm	nm	nm	0.0
PE Underlying (x)	nm	nm	6.0	5.8
Dividend (¢/sh)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
Gross yield (%)	0.0	0.0	0.0	0.0
Net yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

Production	2018F	2019F	2020F	2021F
Pilgangoora				
Plant Feed (Mt)	0.0	0.7	1.5	1.5
Grade (%)	1.3	1.1	1.1	1.1
LC6 ('000t)	0	89	220	220
Cash Cost (AUD/t)	nm	nm	428	428

Profit & Loss (A$m)	2018F	2019F	2018F	2021F
Total Revenue	1.7	31.7	192.0	192.0
Growth (%)	nm	nm	5.3	0.0
EBITDA	(13.1)	1.1	102.3	102.3
Growth (%)	0.9	nm	90.7	0.0
Dep & Amort	0.0	3.0	14.6	14.1
EBIT	(13.1)	(1.9)	87.7	88.1
Net Interest	0.0	(15.2)	(16.2)	(14.2)
PBT	(13.1)	(17.1)	71.5	73.9
Growth (%)				
Tax	(0.4)	0.0	21.5	22.2
NPAT Underlying	**(12.8)**	**(17.1)**	**50.0**	**51.7**
Growth (%)	0.0	0.0	0.0	0.0
NPAT Reported	**(12.8)**	**(17.1)**	**50.0**	**51.7**
Normalised NPAT	**(12.8)**	**(17.1)**	**50.0**	**51.7**
Ord Shares	1820	2125	2125	2125
Options	35	174	174	174
Fully Diluted	1855	2300	2300	2300
FD Wgted Av Shares	1748	2078	2300	2300

Key Ratios	2018F	2019F	2020F	2021F
Profitability				
EBITDA	(13.1)	1.1	102.3	102.3
EBITDA/Rev (%)	0.0	3.7	53.7	53.7
EBIT	(13.1)	(1.9)	87.7	88.1
EBIT/Rev (%)	0.0	(6.3)	46.1	46.3
NPAT	(12.8)	(17.1)	50.0	51.7
NPAT/Rev (%)				
ROE (%)	(0.0)	(17.3)	47.9	49.4
ROA (%)	(4.8)	(5.7)	13.8	12.4
ROIC (%)	(6.2)	(0.7)	37.5	0.0
Financial Strength				
Debt / Equity (%)	156.8	164.0	164.0	164.0
Net Debt ($M)	117.1	167.6	129.4	69.6
Net Debt / Equity (%)	125.5	160.4	123.8	66.6
Net Debt / EBITDA (%)	nm	nm	126.5	68.0
Interest Cover EBIT (%)	nm	(0.1)	5.4	6.2
Current Ratio (x)	1.6	1.3	3.0	4.8
Quick Ratio (x)	0.0	0.0	0.0	0.0
Valuation				
Operating Cash Flow	(5.5)	1.1	44.3	65.9
CFPS (¢)	(0.00)	0.00	0.02	0.03
Price / CF	nm	230.0	6.2	4.2
BV per share ($)	0.06	0.05	0.05	0.05
Price / Book Value (x)	2.3	2.5	2.7	2.7
NTA ($)	0.06	0.05	0.05	0.05
Price / NTA (x)	2.3	2.5	2.7	2.7
EV ($M)	353.7	443.9	405.7	345.9
EV / Sales (x)	211.2	14.0	2.1	1.8
EV / EBITDA (x)	nm	398.1	4.0	3.4
EV / EBIT (x)	nm	nm	4.6	3.9

Cash Flow (A$m)	2018F	2019F	2020F	2021F
Customer Receipts	3.1	30.0	190.4	190.4
Supplier Payments	(9.4)	(30.6)	(89.8)	(89.8)
Net Interest	0.5	0.0	(16.2)	(14.2)
Income Taxes Paid	0.3	0.0	(21.5)	(22.2)
Net Operating Cashflows	**(5.5)**	**1.1**	**44.3**	**65.9**
Capex	(127.1)	(76.1)	(6.1)	(6.1)
Net Investing Cash Flows	**(127.1)**	**(71.1)**	**(1.1)**	**(1.1)**
Dividends	0.0	0.0	0.0	0.0
Net Financing Cash Flows	**148.0**	**49.5**	**0.0**	**0.0**
Net Change In Cash	**15.4**	**(25.4)**	**38.2**	**59.8**
Closing Cash Balance	**28.7**	**3.3**	**41.5**	**101.3**

Balance Sheet (A$m)	2018F	2019F	2020F	2021F
Cash & Equivalents	28.8	3.3	41.5	101.3
Receivables	2.2	15.0	15.6	15.6
Inventories	0.0	4.9	31.3	31.3
Current Assets	**41.0**	**33.2**	**98.4**	**158.3**
Tangible Assets	222.3	295.3	286.8	278.7
Investments	4.0	4.0	4.0	4.0
Goodwill	0.0	0.0	0.0	0.0
Total Assets	**268.9**	**334.1**	**390.9**	**442.6**
Payables	22.7	23.0	23.5	23.5
Current Term Debt	0.0	0.0	0.0	0.0
Long Term Debt	145.9	170.9	170.9	170.9
Total Liabilities	**175.5**	**229.6**	**286.3**	**338.1**
Total Shareholders Equity	**93.4**	**104.5**	**104.5**	**104.5**

Net Asset Value	A$M	A$ps
Pilgangoora - DCF 7.5%	780	0.37
Other		
Net Debt	-174	-0.08
Corporate - NPV 7.5%	-35	-0.02
Total	571	0.27

Source: Company Reports, EverBlu Estimates

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Company Snapshot

Summary

AJM's strategy is to create shareholder value through the development of profitable mining operations and other supplementary mining activities that deliver strong cash flows, and resultant regular dividends for shareholders. AJM is currently focused on the completion of commissioning and achieving commercial production and sales from its Pilgangoora Lithium Project. AJM also holds coal assets in Indonesia which it is in the process of divesting as soon as reasonably possible.

The Pilgangoora Lithium Project

AJM's main asset is the100% owned Pilgangoora Lithium Project, located at Pilgangoora in Western Australia. It is approximately 123km by road from the town of Port Hedland. Access to the site is via the Great Northern Highway and then Shire roads and station tracks. The Pilgangoora Mining Lease tenements, covering the resource modelling area, are M45/1230 and M45/1231 and cover an area of 394 hectares.

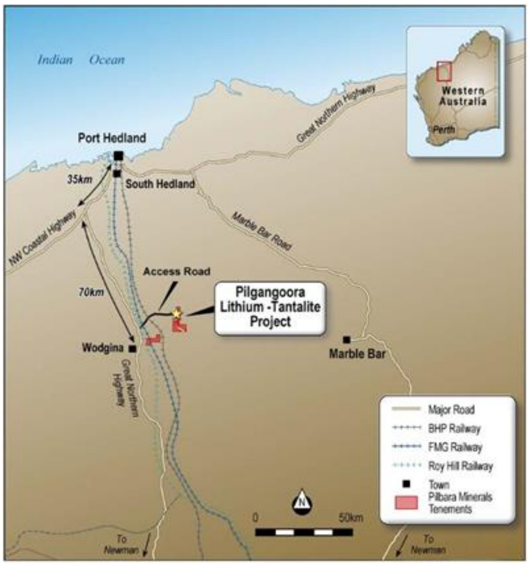
AJM has entered the ranks of lithium producers

The mining operation comprises an open pit mine, processing plant and support infrastructure. Spodumene ore is hosted in thick, shallow mineralisation allowing extraction at relatively low cost. Commercial production was declared in March 2019. Full production is expected to be approximately 220kt tonnes of lithium concentrate per annum

Spodumene concentrate, which contains 6% lithium oxide (Li_2O - generally referred to as SC6 specification), is exported in bulk from Port Hedland to AJM's offtake partners in China, for further processing into a wide range of lithium chemicals, including lithium carbonate (standard and battery grade), lithium hydroxide, lithium metal, and lithium chloride.

The life of mine is forecast to be in excess of 20 years at current rate. At the request of AJM offtake partners, AJM has completed a DFS for expansion study of the project. This proposed Stage 2 expansion will result in mine output doubling annually. Commencement of Stage 2 is subject to AJM entering long term offtake agreements with customers, securing funding for the expansion and final Board approval.

FIGURE 1: PILGANGOORA LITHIUM PROJECT



Source: Company Reports

Valuation & Price Target

Summary

We have probability weighted the NPV of different Pilgangoora production scenarios resulting in a weighted NPV value of AUD780M for Pilgangoora using the parameters tabulated in the sections below. We assess the NPV of corporate costs at AUD35M and net debt at AUD174M resulting in a value of the company of AUD571M.

FIGURE 2: VALUATION OF AJM – 2.13B SHARES ON ISSUE

Net Asset Value	AUDM	AUDps
Pilgangoora - DCF 7.5%	780	0.37
Other		
Net Debt	-174	-0.08
Corporate - NPV 7.5%	-35	-0.02
Total	571	0.27

Source: Company Reports, EverBlu Estimates

We have valued Pilgangoora on a probability generated basis using a combination of our valuation scenarios. We expect Stage 2 to have a probability of 30% of going ahead and within this Stage 2 has a further 33% probability of being able to extend mine life through exploration. These results are tabulated in Figure 3 below.

FIGURE 3: VALUATION OF PILGANGOORA – 2.13B SHARES ON ISSUE

	Value (AUDM)	Probability (%)	Value (AUDM)	Value (AUDps)
Stage 1 (20yrs LOM)	713	70	499	0.23
Stage 2 (14yrs LOM)	869	20	174	0.08
Stage 2 (20yrs LOM)	1 072	10	107	0.05
Total			780	0.37

Source: Company Reports, EverBlu Estimates

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Valuation Scenarios

We have used the following assumptions in the calculation of our base case valuation for 100% of the Pilgangoora Lithium Project. All our scenarios assume an average production rate as stipulated in the table using different LC6 prices and discount rates. We have used USD650/t SC6 as our base case concentrate price. We have used a discount rate of 7.5%. Whilst this may seem controversial we believe that a combination of low interest rates, lower operational risks and easier and cheaper access to capital in future will lower AJM's WACC to around 7.5%.

FIGURE 4: MAJOR ASSUMPTIONS

Item	**Assumptions**	
	Stage 1	**Stage 2**
Base Case Discount Rate	7.5%	7.5%
Ownership	100%	100%
Project Life	20+ years	14 years
First Production	FY2019	FY2021
Mining Method	Open Cut Mining	Open Cut Mining
Ore Processed	1.54Mtpa	3.08Mtpa
Ave Grade Li_2O	1.05%	1.05%
Recovery	81%	81%
Li_2O Conc Production	220ktpa	440ktpa
Li_2O Conc Price	USD650/t	USD650/t
Exchange Rate	USD0.75/AUD	USD0.75/AUD
Total Cash Cost	AUD428/t conc	AUD400/t conc
Total Cash Cost	AUD95Mpa	AUD176Mpa
Capital Expenditure	AUD151M	AUD119M
Maintenance Capital	USD5Mpa	AUD10Mpa
Ore Reserve	41.1Mt @ 1.05% Li_2O	41.1Mt @ 1.05% Li_2O
Mineral Resources	50.5Mt @ 1.01% Li_2O	50.5Mt @ 1.01% Li_2O
Royalty Rate	5%	5%
Tax Rate	30%	30%
Depreciation	5%	5%

Source: Company Reports, EverBlu Estimates

Stage 1 (20+ years)

In our Stage 1 scenario we have used the parameters included in our table above. Most operational parameters used originate from the Pilgangoora Project DFS together with recently updated production and cost statistics. The table below reflects the NPV's of the project at different discount rates and LC6 prices .

FIGURE 5: PILGANGOORA DCF VALUATION - STAGE 1 (20 YEAR LOM)

SC6 Price (USD/t)	600	650	700
Discount Rates (%)			
5.0%	762	868	974
7.5%	628	**713**	798
10.0%	528	599	669

Source: Company Reports, EverBlu Estimates

Stage 2 (14 years)

The Stage 2 expansion assumes a doubling of SC6 production to 440ktpa at a capital cost of AUD120M. The results assume that the capital will be spent over the next 2 years with first production of the Stage 2 concentrate in 2021. The current Ore Reserves are sufficient to sustain a LOM of 14 years

FIGURE 6: PILGANGOORA DCF VALUATION - STAGE 2 (14 YEAR LOM)

SC6 Price (USD/t)	**600**	**650**	**700**
Discount Rates (%)			
5.0%	899	1 051	1 202
7.5%	742	**869**	997
10.0%	619	728	837

Source: Company Reports, EverBlu Estimates

Stage 2 (20 years)

It is believed that further drilling on Pilgangoora could increase the resources and reserves leading to an improvement in the bulk tonnage mine life. The following table reflects the increases in NPV if the project (Stage 1 and Stage 2) was able to increase its life to 20 years at the same throughput and grade.

FIGURE 7: PILGANGOORA DCF VALUATION – STAGE 2 (20 YEAR LOM)

SC6 Price (USD/t)	**600**	**650**	**700**
Discount Rates (%)			
5.0%	1 161	1 362	1 564
7.5%	912	**1 072**	1 232
10.0%	731	862	992

Source: Company Reports, EverBlu Estimates

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The Pilgangoora Lithium Project

Geology

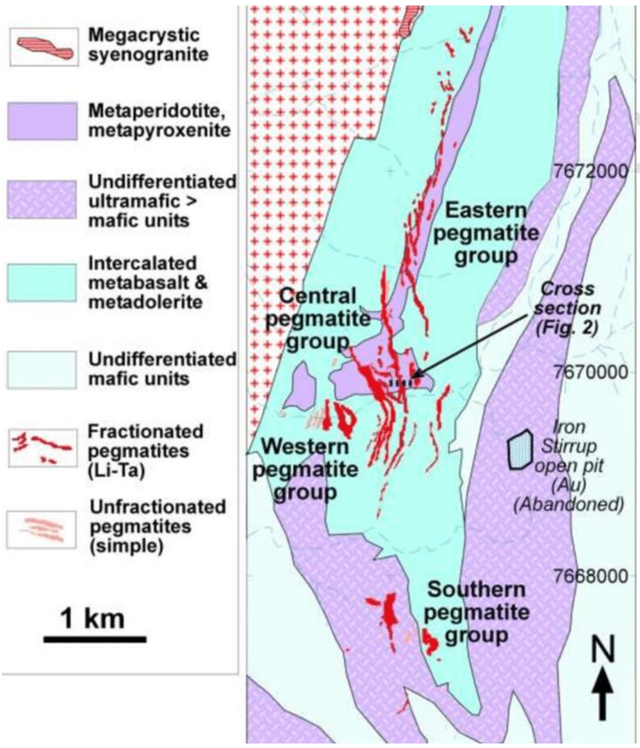
The Pilgangoora Lithium-tantalum pegmatite is a globally significant hard-rock lithium-tantalum deposit. The deposit is located in the East Pilbara Terrane of the northwest Pilbara Craton in Western Australia. The Northwest Pilbara Craton is one of the world's major lithium-tanatlum provinces with large scale lithium-caesium-tantlum bearing pegmatites located at Mt Francisco, Wodgina, Pilgangoora and Strelley.

The Pilgangoora pegmatite intrusions crop out in a well exposed greenstone belt, with little weathering at surface. Exploration drilling programs along with detailed geological mapping of the Pilgangoora tenement group has provided a better understanding of the geological setting of the fractionated pegmatite intrusions within the East Strelley greenstone belt. This work has led to the recognition of some valuable exploration criteria that may be applied locally to locate additional resources and, longer term, may be used more strategically to review other pegmatite fields across the Pilbara region.

The Pilgangoora Li-Ta deposit is located on the western flank of the East Strelley greenstone belt, in a sequence of highly deformed, fault bounded mafic dominated supracrustal rocks, which protrude into the Carlindi Batholith. These units have been assigned by Blewett and Champion (2005) to the Euro Basalt of 3350-3335Ma, which form the lower half of the Kelly Group.

Four phases of deformation (D1-D4) are recognized in the project area, involving faulting, shearing and folding. The distribution of the Pilgangoora pegmatites is shown in the figure below.

FIGURE 8: PILGANGOORA GEOLOGY



Source: "The geology and mineralogy of the Pilgangoora lithium-tantalum pegmatite deposit" Marcus T Sweetapple et al

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Three principal pegmatite groups are identified in the centre of the project area – Eastern, Western and Central. Pegmatites of the three principal groups have a strike length of up to 1.4 km, and range in thickness from 1-70m. Drilling has shown that the pegmatites occur as sheets dipping to the east at 20-60°, striking parallel to sub-parallel to the dominant NNW trending schistose (D3) fabric within the greenstones. Pegmatites of the three principal pegmatite groups typically breach earlier faults. Internal texture, units and mineralogy of the pegmatites

The two spodumene units are estimated to comprise more than 85% of the volume of the pegmatite dykes. This common occurrence of spodumene is represented by consistent grades throughout the pegmatites. Spodumene generally occurs in quartz dominated matrices, with subordinate albite.

Mining

Mining will be undertaken by contractors using conventional bulk mining methods utilising EX2500 hydraulic excavators, CAT785 dump trucks and drill and blast delivering ore to a ROM stockpile. Ore will be trucked directly from the blasted faces to the ROM stockpile and fed to the primary crusher using a Front-End Loader. Allowance has been made for blending the ROM and external stockpiles.

The pits will be mined using 3m flitches for ore and waste. This height gives reasonable production efficiency while keeping dilution to a minimum. All mine waste rock will be dumped external to the pit. Waste rock dumps have been designed to allow the LOM waste volumes.

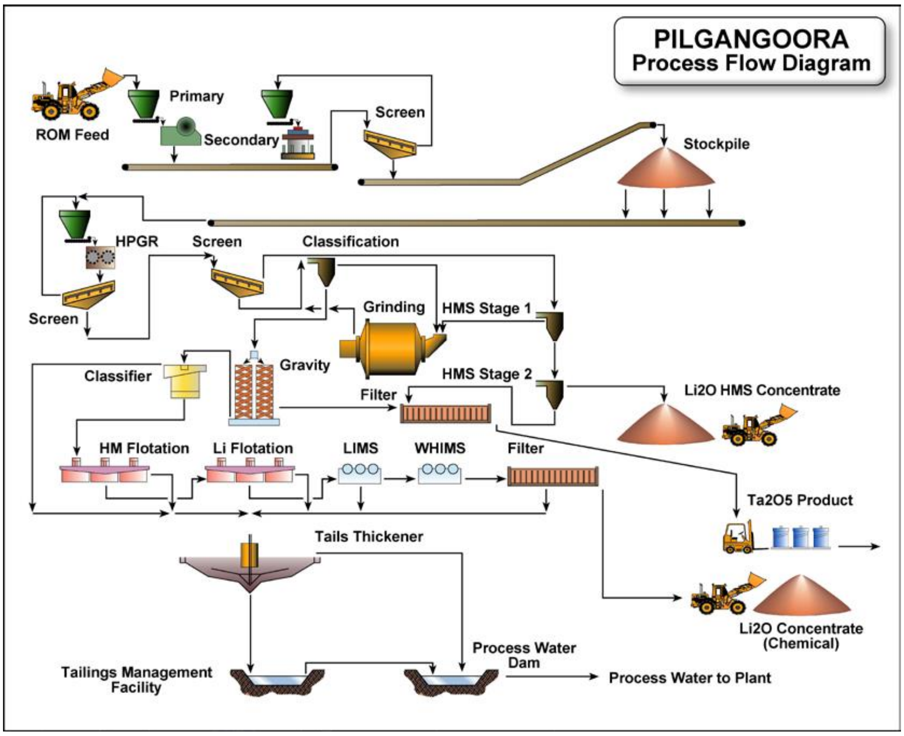
The primary objective of the mine schedule is achieving a plant throughput of 1.54 Mtpa in Stage 1 and 3.08 Mtpa when the duplication (Stage 2) is at full capacity. A total of 6 mining stages plus a Hilltop stage were developed for the mining sequence within the final pit..

Process Design

The concentrator plant is designed to process 1.5Mtpa of ore feed at an average utilisation rate of 85% to produce chemical Grade spodumene at 6% Li_2O with medium iron.

The concentrator has six key areas including; crushing, feed preparation, dense media separation, gravity separation, grinding, flotation, magnetic separation and dewatering. Wet magnetic separation has been included in the flotation process for the reduction of iron in both the chemical and the future technical grade product.

FIGURE 9: PILGANGOORA PROCESS FLOW DIAGRAM



Source: Company Reports

Transport & Logistics

Qube Bulk is contracted to provide transport for product from stockpiles at the mine to side of a bulk carrier vessel located at the multiuser port facility in Port Hedland.

The Qube logistics chain is:

- Double combination road trains will be loaded by front end loader (FEL) from the product stockpile with 66t of product. An onsite weighbridge or Loadright on the FEL will verify payloads are within permit limits.
- The double combination will travel to a storage shed in Wedgefield and side tip into a stockpile in the shed.
- On arrival of a prescribed vessel at port, FELs will load product from the stockpile in the shed into Rotaboxes. Each Rotabox has a capacity of 25t.
- Triple combination road trains take the Rotaboxes to port and then removed from the trailers and loaded on to Mafi trailers. The trailers transport the Rotaboxes onto the berth which are then picked up by a mobile harbour crane or ship crane, and tipped into the hold.

This Research Report was prepared by Gavin van der Wath ("Mr van der Wath") in his capacity as a Consultant to EverBlu Capital and is subject to the disclosures and restrictions set out below.

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EverBlu Capital provides research services to its client. Mr van der Wath is a Research Analyst and has over twenty eight years' experience in the financial services industry, particularly in financial analysis, research report writing and portfolio management as well as twelve years' practical mining experience as a Mining Engineer. Mr van der Wath joined the EverBlu team in 2016 where he has been involved in the research and publication of reports. Prior to this Mr Van der Wath worked at a number of financial entities where he held Director, Head of Research, Portfolio Manager and Analyst positions. Mr van der Wath holds a Bachelor of Science (Mining Engineering) and a Graduate Diploma in Engineering (Industrial) from the University of the Witwatersrand and a Bachelor of Commerce from the University of South Africa. He also holds Mine Manager's Certificates of Competency in both Metalliferous and Coal Mines.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or EverBlu Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for EverBlu Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

Valuation Methodology

EverBlu Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Conflicts of Interest

EverBlu Capital declares that it acted as Broker to the Offer to the Altura Mining Limited Placement as announced by the ASX on 12 February 2019. EverBlu Capital received fees and Options for it's role as Broker to the Offer. EverBlu Capital, as principal participated in the Placement.

The author Gavin Vanderwath made contact with Altura Mining Limited for the preparation of this report for the verification of facts.

EverBlu Capital and its associates also declare that they deal in securities as part of their financial services business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to the issuing company, holding a position in the securities or acting as principal or agent and as such may effect transactions not consistent with the recommendation (if any) in this report. EverBlu Capital and its associates therefore may benefit from any increase in the price of those securities. EverBlu and its associates may earn brokerage fees, commissions, other benefits as well as fees or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

EverBlu Capital Recommendation Proportions

Buy	42.5%	(	2.9%	of stocks with recommendations are EverBlu clients)
Speculative Buy	1.3%	(	100.0%	of stocks with recommendations are EverBlu clients)
Hold	26.1%	(	0.0%	of stocks with recommendations are EverBlu clients)
Underperform	30.1%	(	0.0%	of stocks with recommendations are EverBlu clients)