

SKY METALS (SKY)

Analyst

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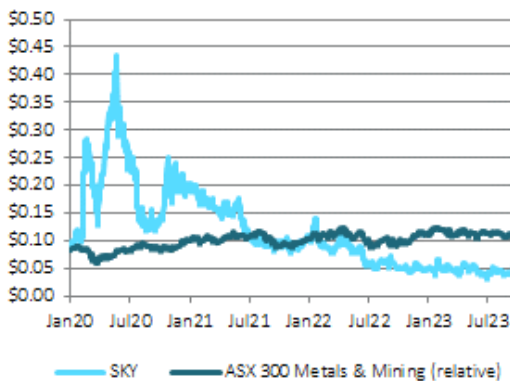
Date

15 September 2023

TOMRA ORE SORTING: A SIMPLE AND ELEGANT SOLUTION

SPEC BUY	SHARE PRICE	TARGET PRICE	IMPLIED RETURN
	\$0.05	\$0.15	188%

SHARE PRICE CHART



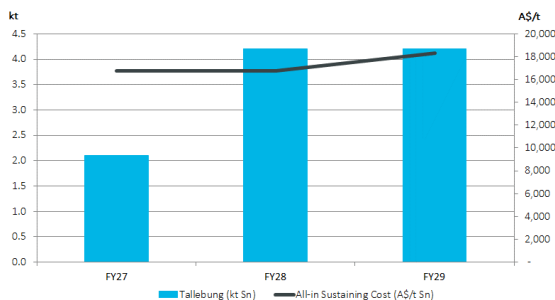
COMPANY DATA & RATIOS

Share Price (\$ per share)	0.05
Target Price (\$ per share)	0.15
Implied Return (%)	188%
Enterprise Value (\$m)	21
Diluted MCap (\$m)	25
Diluted Shares (m)	477
Avg Daily Value (\$m)	0.03
Free Float (%)	100%
GICS	Materials
Commodity	Tin

MAJOR SHAREHOLDERS

Rigi Investments	8%
Board & Management	10%

TALLEBUNG PRODUCTION VOLUMES & AISC



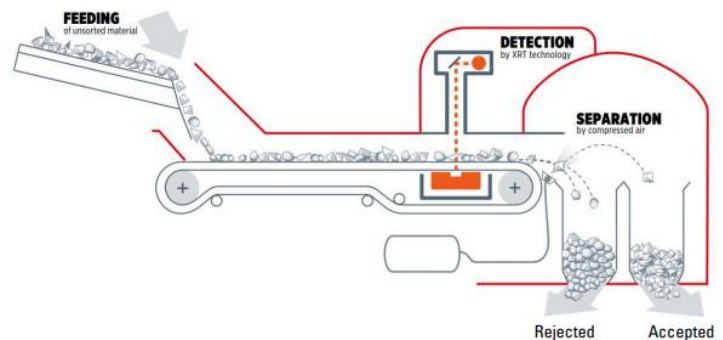
DEMO AT TOMRA FACILITIES

We recently attended an ore sorting demonstration at TOMRA's facilities, located at Castle Hill, NSW. We observed first-hand how crushed ore from Tallebung is separated into waste (>70%) and mineralised rock (<30%) with very high tin recoveries.

LINK TO VIDEO OF DEMO: VIDEO

The concept is relatively simple:

1. Crushed ore (8-32mm) is fed through the conveyor belt and through an X Ray tube.
2. Ore sorting occurs via X Ray attenuation (shines X rays through the rock, tin provides strong attenuation vs waste rock) and sensors detect mineralised rocks.
3. Air valves shoot the rocks with cassiterite into a separate bucket.



Source: Sky Metals.

KEY TAKEAWAYS:

1. **Elegant solution:** relatively coarse grind size to start, significant grade uplift (+3x), substantial waste mass rejection (+70%) combined with high tin recoveries (+98%) streamline Tallebung's flow sheet.
2. **Cost effective solution:** Each unit is estimated to cost \$1m with opex in the order of \$1 per tonne processed.
3. **Strong track record,** TOMRA has implemented XRTs on a range of tin mines, including Minsur's San Rafael and Metal X's Renison, with learnings pointing to low-risk implementation at Tallebung.
4. **2nd generation ore sorters** to be rolled out by TOMRA (expected at Tallebung) with key upgrades including a faster conveyor belt and larger X Ray tube allowing for higher capacity and efficiencies per unit.

MAINTAIN BUY RATING, \$0.15 TARGET PRICE

We maintain our SPEC BUY recommendation and a \$0.15 target price, an implied potential return of 188%.

MODEL SUMMARY: FINANCIALS & NAV

SKY Metals
Code: SKY
Stock Details

Recommendation:	SPEC BUY		
Target	\$0.15	Share Price	\$0.05
NAV	\$0.15	52 Week High	\$0.12
Implied Return	188%	52 Week Low	\$0.03

Enterprise Value	\$21m
Diluted MCap	\$25m
Diluted Shares	477m
Free Float	100%
Avg Daily Value	\$0.03m

Macro Assumptions	FY22	FY23E	FY24E	FY25E	FY26E
Exchange Rate (A\$/US\$)	0.73	0.69	0.70	0.70	0.70
Tin Price (US\$/t)	40,182	23,446	28,500	28,500	28,500
Tin Price Realised (A\$/t)	55,382	34,220	40,714	40,714	40,714

Profit & Loss (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Revenue	-	-	-	-	-
Operating Costs	-	-	-	-	-
Operating Profit	-	-	-	-	-
Corporate & Other	(2)	(1)	(1)	(1)	(4)
Exploration Expense	-	-	-	-	-
EBITDA	(2)	(1)	(1)	(1)	(1)
D&A	(0)	-	-	-	-
EBIT	(2)	(1)	(1)	(1)	(1)
Net Interest Expense	(0)	0	0	0	0
Pre-Tax Profit	(2)	(1)	(1)	(1)	(1)
Tax Expense	-	-	-	-	-
Underlying Profit	(2)	(1)	(1)	(1)	(1)
Significant Items (post tax)	-	-	-	-	-
Reported Profit	(2)	(1)	(1)	(1)	(1)

Cash Flow (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Operating Cashflow	(1)	(1)	(1)	(1)	(1)
Tax	(0)	-	-	-	-
Net Interest	0	0	0	0	0
Net Operating Cash Flow	(1)	(1)	(1)	(1)	(1)
Exploration	(3)	(3)	(3)	(2)	(2)
Capex	-	-	-	-	(20)
Acquisitions / Disposals	-	-	-	-	-
Other	-	-	-	-	-
Net Investing Cash Flow	(3)	(3)	(3)	(2)	(22)
Equity Issue	6	4	4	6	23
Borrowing / Repayments	-	-	-	-	23
Dividends	-	-	-	-	-
Other	-	-	-	-	-
Net Financing Cash Flow	6	4	4	6	45
Change in Cash Position	1	(1)	0	3	22
FX Adjustments	-	-	-	-	-
Cash Balance	3	3	3	5	27

Balance Sheet (A\$m)	FY22	FY23E	FY24E	FY25E	FY26E
Cash	3	3	3	5	27
Other Current Assets	0	0	0	0	0
PP&E	1	1	1	1	21
Exploration & Development	16	19	21	23	25
Other Non Current Assets	0	0	0	0	0
Total Assets	20	22	25	30	73
Debt	-	-	-	-	23
Other Liabilities	1	1	1	1	1
Net Assets	19	21	24	29	50

Ratio Analysis		FY22	FY23E	FY24E	FY25E	FY26E
Diluted Shares	m	377	463	501	559	775
EPS - Diluted	Ac	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)
P/E	x	n.m.	n.m.	n.m.	n.m.	n.m.
CFPS - Diluted	Ac	(0.3)	(0.3)	(0.3)	(0.2)	(0.2)
P/CF	x	n.m.	n.m.	n.m.	n.m.	n.m.
FCF - Diluted	Ac	(0.4)	(0.3)	(0.3)	(0.2)	(2.8)
P/FCF	x	n.m.	n.m.	n.m.	n.m.	n.m.

Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-

Enterprise Value	A\$m	22	22	23	24	36
EV/EBITDA	x	(8.8x)	(17.6x)	(17.9x)	(18.1x)	(25.5x)
ROE	%	(12%)	(6%)	(5%)	(4%)	(3%)
ROA	%	(11%)	(6%)	(5%)	(4%)	(2%)

Net Debt / (Cash)		(3)	(3)	(3)	(5)	(5)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	(23%)	(32%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	(19%)	(24%)

Resource	Target Resource				
	Mt	% tin	kt	Mt	EV/t Sn
Indicated	0	0	0	25	836
Inferred	10.2	0.18	18.4	30	696
	10.2	0.18	18.4	1138	

Tallebung has potential to reach a resource of ~25-30Mt near term

Earnings Sensitivity		FY25E	FY26E	FY25E	FY26E
		A\$m	A\$m	%	%
Tin Price	US\$/t +10%	n.m.	n.m.	n.m.	n.m.
Exchange Rate	A\$/US\$ -10%	n.m.	n.m.	n.m.	n.m.

Valuation	Risking	Stake	A\$m	A\$/sh
Tallebung (unrisked)	-	100%	245	0.51
Tallebung (risk-adjusted)	65%	100%	86	0.18
Exploration			5	0.01
Corporate & Other			(22)	(0.05)
Debt			-	-
Cash			4	0.01
Option Strikes			-	-
Risk adjusted NAV			72	0.15
				0.35

Source: Blue Ocean Equities

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Blue Ocean Equities Pty Limited acted as Lead Manager for the SKY Placement in May 2023.

The Analyst of this report does not own shares in SKY Metals.

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