

# Adriatic Metals

## Base Metals - Developer/Explorer

**Rating**  
**SPECULATIVE BUY**

**Price Target**  
**A\$3.20**

**ADT-ASX**  
**ADT1-LSE**

**Price**  
**A\$2.26**

### Market Data

52-Week Range (A\$) :	0.78 - 2.86
Avg Daily Vol (000s) :	210.81
Shares Out. (M) :	207.8
Market Cap (A\$M) :	469.7
Dividend /Shr (£) :	0.00
Dividend Yield (%) :	0.0



Source: FactSet

Priced as of close of business 5 February 2021

Adriatic Metals is focussed on the development of the Vareš polymetallic project located in Bosnia & Herzegovina. The company has just released a PFS for the project and is now undertaking work to feed into a DFS.

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## Making strides with permitting

Adriatic Metals (ADT-ASX) continues to derisk the Vareš Project in Bosnia & Herzegovina, as it works towards a DFS and project construction late in 2021. A number of key permits have been received across the project in the past few weeks. The Vareš Project is split into two Concessions: one for the Veovaca project area, which includes the open pit, process plant site and tailings; and one for the Rupice area, which includes the high margin underground. While they are both covered by the same Concession Agreement, the approvals route treats them separately. The ultimate goal is to receive the Exploitation Permit.

**Veovaca Permitting:** In recent weeks, ADT has received the Exploitation Permit for the Veovaca project area. This allows for formal exploitation (mining) of the Veovaca project area.

ADT has also highlighted that the terms of the Concession Agreement allow for exploitation for up to 30 years. As the Concession Agreement also covers the separate Rupice concession, the granting of the Veovaca Exploitation Permit also implies exploitation at Rupice for the same time period; however, a formal Exploration Permit for Rupice is still required.

**Rupice Permitting:** The Bosnian Federal Ministry of Environment and Tourism has issued its Record of Decision (RoD), meaning the Environmental Permit for Rupice is required to be issued within 30 days. We view receipt of the Rupice Environmental Permit, which is one of the key approvals required prior to issuance of the Exploitation Permit, to be a very positive step forward to fully permitting ADT's Vares Project.

The Urban Planning Application for Rupice can now be submitted and will be shortly followed by application for the Exploitation Permit. With the Exploitation Permit already received for Veovaca, Rupice is the last piece of the permitting puzzle.

Given a number of government and local stakeholders have already reviewed and approved various aspects of the project, with no impediment thus far, this bodes well for completion of permitting at Rupice, in our view.

**Likely time frames?** For context, the Veovaca portion of the project received its RoD in April 2020 and Environmental Permit in May. The Urban Planning Permit was granted in November 2020 for Veovaca and the Exploitation Permit was received late last month (January 2021). Based on these time frames and notwithstanding the COVID impact (one could argue that this slowed down the Veovaca process), we could expect the Rupice Exploitation Permit no later than October 2021. Therefore, the project remains on track for commencement of construction in late 2021 and commissioning in late 2022.

**Three reasons to own this stock:** ADT is winning market confidence and delivering project permitting milestones. When the company initially listed in 2019, many viewed Bosnia as a challenging jurisdiction, not because it was, but because it wasn't well understood from a mining standpoint. ADT has done a commendable job in demonstrating the ease of operating in the eastern European nation to date.

ADT is a strong M&A target, with Sandfire Resources (SFR-ASX: A\$4.92 | BUY, A\$6.75 PT | Tim Hoff) owning 16% of the company.

The Rupice and Veovaca deposits are polymetallic (~30% Ag, 25% Zn, 15% Au), which provides a natural hedge when considering base vs precious metals. A strong, robust PFS would pave the way for a DFS this year, while exploration is ongoing.

**Valuation and Recommendation:** We recently updated our Precious Metals and Base Metals Price Decks and announced an upgrade to our price target. Our price target (risked, NPV10%) remains A\$3.20/share. Our rating of SPECULATIVE BUY remains unchanged.

# Appendix: Important Disclosures

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## Investment Recommendation

Date and time of first dissemination: February 08, 2021, 04:15 ET

Date and time of production: February 08, 2021, 04:15 ET

## Target Price / Valuation Methodology:

Adriatic Metals - ADT

Our price target (NPV10%) is on a fully diluted basis and risked 70% to account for pre-DFS status of the project. Our project valuation is based on our assumed development/production scenario at Vareš, comprising underground mining at Rupice for 10 years at 0.8Mtpa followed by 4 years open pit at Veovaca.

Given the early stage of development of the Vareš Project along with the financing and final permitting stages to progress through, we have applied a 70% risk weighting to our project valuation to capture project and financing risks.

Our net asset valuation per share is based on a fully financed scenario inclusive equity dilution and fully drawn project debt.

## Risks to achieving Target Price / Valuation:

Adriatic Metals - ADT

## Financing risks

Our analysis suggests that ADT will require additional capital to fund the development costs for the Vareš project. As a pre-cashflow company, ADT is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders.

Furthermore, accurate estimates of capital costs for the project remain subject to completion definitive feasibility studies, which may see capital requirements exceed our model assumptions. There is no guarantee that studies will result in a positive investment decision for the project.

## Operational risks

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries across a suite of metals), geological and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets and negatively impact valuation. Further, the concentrate specifications may differ from initial test work interpretations which can also materially impact product acceptance by customers and therefore earnings from forecast production.

## Exploration risks

Exploration is subject to several risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data. Our model assumptions include a proportion of Indicated and Inferred Resources, which may or may not ultimately be proven to be economic and converted into Reserves.

## Market risks

ADT will look to produce several metal concentrate products that are subject to treatment, refining and penalty charges. These are only indicative and are subject to further testwork to account for ore variability within the mined deposits.

## Commodity price and currency fluctuation

The company as a near-term base metals producer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

## Sovereign Risk

Bosnia and Herzegovina is a fiscally stable jurisdiction; however, it has a small and tightly regulated mining sector.

## Distribution of Ratings:

### Global Stock Ratings (as of 02/08/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	575	63.40%	59.65%
Hold	168	18.52%	42.26%
Sell	11	1.21%	27.27%
Speculative Buy	135	14.88%	80.00%
	907*	100.0%	

\*Total includes stocks that are Under Review

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## 12-Month Recommendation History (as of date same as the Global Stock Ratings table)

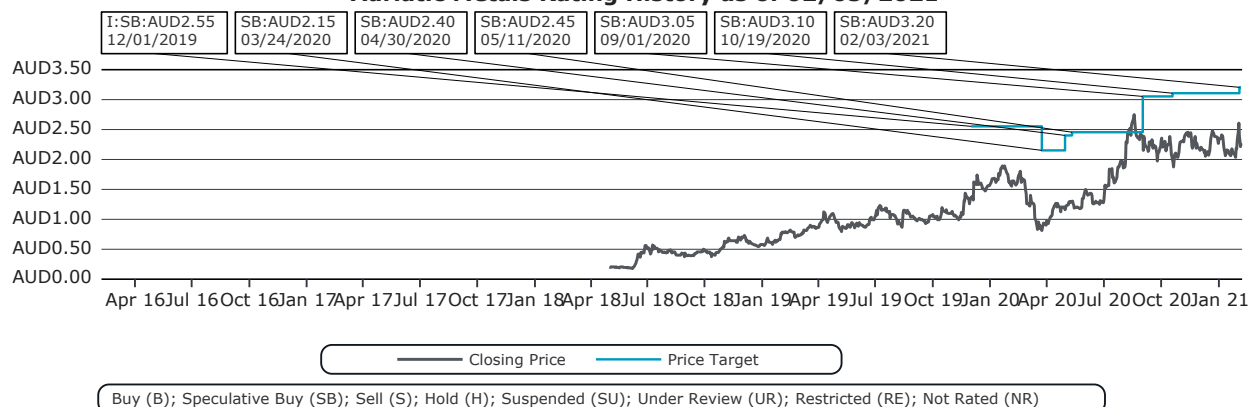
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### Adriatic Metals Rating History as of 02/05/2021



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