

Ticker: ADT AU/LN **Net cash:** US\$20m **Project:** Rupice / Kizevak
Market cap: A\$466m **Price:** C\$2.26/sh **Country:** Bosnia / Serbia
RECOMMEND. (unc): BUY **TARGET** (unc): A\$3.30/sh **RISK RATING:** HIGH

The receipt of the Record of Decision (RoD) at Rupice is a good follow on to the recent permitting progress at Veocava last month. This is a key qualitative de-risking event in our view as it strengthens the tenure by providing a clear pathway and visibility on final permits ahead of the 3Q21 construction targeted start. We think the final permits and DFS, both due this year, are the two keys that unlock M&A interest and close the valuation gap as the lack of recently-permitted modern mining projects in Bosnia gives substantially more weight and value to final permits. This is reflected in our SCPE NPV_{8%} of US\$867m which is 2x larger than the current market cap. **We maintain our BUY rating and 0.7xNAV_{8%} A\$3.30/sh PT.** We estimate that Adriatic is currently trading at just 0.40xNAV_{8%} or 1xNAV_{40%}, indicating the upside available. Looking further afield, Table 1 shows Adriatic's ~32% silver trading at US\$3.16/oz post recovery and payability, against peers in the US\$6-12/oz range, further supporting the upside.

Table 1. EV/resource for polymetallic and silver companies

	Silvercrest	Mag Silver	Aya	New Pacific	GoGold	Adriatic	Silver Tiger	Discovery
Asset	Las Chispas	Juanicipio	Zgounder	Silver Sand	Los Ricos	Rupice	El Tigre	Cordero
Resource date	1Q21 FS	1Q18 PEA	1Q18 PEA	2Q20 43-101	3Q20 43-101	4Q20 PFS	2017 43-101	1Q18 PEA
Global resource (kt) ^A	4,064	24,900	4,927	45,230	34,400	19,400	33,527	199,220
Ounces (Moz AgEq)	130	563	40	191	122	229	80	691
Grade (AgEq) ^B	998	703	255	132	111	367	74	108
Recovery (%) ^C	95%	91%	87%	90%	90%	83%	~90%	71%
Payability (%)	100%	82%	100%	100%	100%	58%	100%	100%
Ownership (%)	100%	44%	100%	100%	100%	100%	100%	100%
Royalty (%)	0.5%	0.5%	3.0%	6.0%	0.5%	0.8%	0.0%	0.5%
Ounces - payable recoverable (Moz AgEq)	123	186	34	162	109	109	72	486
Grade - payable recoverable (AgEq) ^B	916	508	222	118	99	211	67	72
Payable recoverable on in-situ (%)	92%	72%	87%	90%	90%	58%	90%	67%
Portion of payable that is silver (%)	54%	54%	100%	100%	62%	32%	46%	44%
FD mkt cap (US\$m) ^D	1,388	1,758	343	908	576	392	132	579
Compared to basic market cap	5%	3%	15%	3%	10%	9%	20%	24%
Net cash (US\$m) ^E	162	199	48	41	66	33	17	104
FD EV (US\$m)	1,226	1,559	295	866	510	359	114	476
EV/in-situ (US\$/oz AgEq)	9.40	6.29	7.30	4.53	4.17	1.57	1.43	0.69
EV/payable recoverable (US\$/oz AgEq)	9.94	8.39	8.66	5.36	4.66	3.29	1.58	0.98

(A) Silvercrest Metals 3Q19 PEA; GoGold: Los Ricos, Parral and Esmerelda 3Q20 resources; New Pacific note pit constrained at 45g/t cut off requires layback outside of licence; Discovery Metals 2018 at 50g/t AgEq cut off; Aya net of 2018/2019 production (B) AgEq spot using US\$1,850/oz Au and US\$24.00/oz Ag (C) Silvercrest Metals, Mag Silver, Silvercrest Mines from PEA, New Pacific and GoGold based on pit and pit+UG constrained resources, Adriatic from PFS excluding barite, Discovery from 2018 Levon PEA and a combination of payability and recovery hence payability set at 100% here; (D) Diluted for ITM options + warrants and post period end equity; (E) cash as last reported plus net cash from post period equity.

Bosnia permitting progress continues at pace with Rupice Record of Decision (RoD) in hand

Adriatic has received the RoD from the Federal Ministry of Environment and Tourism for the environmental permit required to be issued within 30 days from the RoD date. **Next steps:** once the environmental permit is received, Adriatic will apply for an 'Urban Planning Permit'—which will allow Adriatic to apply for the **exploitation permit** for the UG ahead of the 3Q21 construction target.

Why we like Adriatic

1. World-class polymetallic with 213Moz @ 342g/t AgEq resource / 149Moz @ 416g/t reserve
2. Starting with UG operation generates quick payback and high IRR
3. Recently expanded licence along the prospective belt with no modern exploration
4. Existing infrastructure, low opex, royalties and taxes, strong permitting history in Bosnia
5. Pipeline projects in Serbia with potential for 10Mt @ 8-10% Zn for second operation

Catalysts

1. 1H21: Rupice DFS
2. 1H21: Rupice Urbanisation and Exploitation permit
3. Mid 2021: Target mine development start
4. 2H21: Processing plant construction start
5. 4Q22: First production

Research

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Ticker: ADT AU	Price/mkt cap: A226c/sh, A\$466m	Group P/NAV today: 0.40x	Asset: Rupice / Veovaca
Author: B Salier / B Gaspar	Rec/0.6xNAV PT: BUY, A\$3.3/sh	1xNAV_{3Q21} FD: A\$5.62/sh	Country: Bosnia / Serbia

Commodity	Price	Recov.	Payab.	NSR*	% totl.
Silver	24.0	93%	68%	63%	34%
Zinc	1.13	97%	57%	56%	27%
Gold	1850	71%	63%	45%	16%
Lead	0.82	93%	68%	63%	14%
Copper	2.95	96%	68%	65%	9%

*Payable recoverable / in-situ Barite and antimony: 1%

Asset based SOTP valuation^

	US\$m	O/ship	NAVx	A\$/sh*
NPV Rupice (build start)	867	100%	1.0x	5.44
Tethyan (US\$0.65/oz AgEq)	22	100%	1.0x	0.14
Net cash 4Q20	20.0	-	1.0x	0.13
Cash from options (US\$m)	9.3	-	1.0x	0.06
1xNAV8% 1Q20 \$1850/oz	918			5.76

*Asset only, build start, ex G&A and fin. costs Market P/NAV_{10%}: 0.40x

Asset NPV (US\$m): 1xNPV project today (US\$m, ungeared)*

Grade / cmdty px:	80%	90%	100% [^]	110%	120%
10% discount	514	684	853	1,022	1,191
8% discount	551	735	918	1,101	1,284
6% discount	591	791	991	1,190	1,388
Ungeared project IRR:	61%	73%	85%	97%	108%

Asset NPV (US\$m)

	5.0Mt	6.0Mt	7.0Mt	8.0Mt	9.0Mt
Grade/px: +80%	551	551	551	551	551
Grade/px: +90%	735	735	735	735	735
Base case [^]	918	918	918	918	918
Grade/px: +110%	1,101	1,101	1,101	1,101	1,101
Grade/px: +120%	1,284	1,284	1,284	1,284	1,284

[^]Project level NPV, excl finance costs and central SGA, discounted to build start

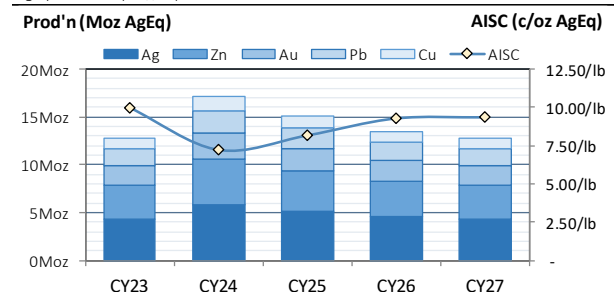
Group NAV over time*

	Mar 21	Mar 22	Mar 23	Mar 24	Mar 25
Rupice / Veovaca (US\$m)	797	928	1,164	953	774
Central & finance (US\$m)	(102)	(98)	(91)	(79)	(69)
Tethyan (nominal)	22	22	22	22	22
Net cash prior qtr (US\$m)	20.0	48.4	(122.2)	7.2	241.2
Cash from options (US\$m)	9.3	9.3	9.3	9.3	9.3
NAV (US\$m)	746	909	982	912	977
FD shares on issue (m)	231.0	280.0	280.0	280.0	280.0
1xNAV8%/sh FD (A\$/sh)	4.68	4.71	5.09	4.72	5.06
0.7xNAV PT:	3.30				
P/NAV FF FD:				0.48x	

*Diluted for options and mine-build equity, net of central G&A and fin. costs

Production (Y1 from 3Q22)

	CY23	CY24	CY25	CY26	CY27
ZnEq production (000t)	124	166	147	131	124
ZnEq AISC cost (US\$/lb)	0.47	0.34	0.39	0.44	0.44
AgEq production (000oz)	13	17	15	14	13
AgEq AISC cost (US\$/oz)	10.0	7.3	8.2	9.3	9.4



Source: SCP estimates

Resources and reserves	Tonnes	AgEq	Ag (%)	Zn (%)	
Rupice M&I + Inf resource	12.0Mt	133g/t	186Moz	31%	27%
Veovaca M&I + Inf resource	7.4Mt	116g/t	28Moz	35%	41%
Total M&I + Inf resource	19.4Mt	342g/t	213Moz	32%	29%
Rup + Veo P&P reserve	11.1Mt	416g/t	149Moz	32%	32069%

Share data

	Basic	FD	FF FD (equity @ 0.5xNAV)
Basic shares (m)	206.327	231.0	280.0

Sources

Cash + pr prod ops (US\$m)	20.0	Capex + working cap (US\$m)	192.6
Debt (US\$m)	100.0	Finance + G&A in build (US\$m)	11.7
Mine build equity (US\$m)	95.0	Total uses (US\$m)	204.3
Total sources (US\$m)	215.0		

Ratio analysis

	CY19E	CY20E	CY21E	CY22E	CY23E
Average shares out (m)	206.3	206.3	206.3	206.3	206.3
EPS (US\$/sh)	(0.04)	(0.03)	(0.12)	(0.08)	0.68
CFPS before w/c (US\$/sh)	(0.04)	(0.06)	(0.32)	(0.76)	0.71
EV (US\$m)	303.3	301.8	273.3	443.9	314.5
FCF margin (%)	-	-	-	-	45%
PER (x)	-	-	-	-	2.3x
P/CF (x)	-	-	-	-	2.2x
EV/EBITDA (x)	-	-	-	-	1.8x

Income statement

	CY19E	CY20E	CY21E	CY22E	CY23E
Revenue (US\$m)	-	-	-	40.1	310.3
COGS (US\$m)	-	-	(13.0)	(40.5)	(127.4)
D&A (US\$m)	-	-	-	-	(6.7)
Gross profit (US\$m)	-	-	(13.0)	(0.4)	176.2
Admin (US\$m)	(3.5)	(5.9)	(8.2)	(8.2)	(8.2)
Finance cost (US\$m)	0.2	0.2	(0.9)	(6.3)	(9.9)
Expln, royalty, other (US\$m)	(5.0)	(1.2)	(2.4)	(0.1)	(1.4)
Tax (US\$m)	-	-	-	(2.3)	(16.2)
Net income (US\$m)	(8.3)	(6.9)	(24.4)	(17.3)	140.4

Cash flow

	CY19E	CY20E	CY21E	CY22E	CY23E
EBITDA (US\$m)	(8.3)	(6.9)	(23.5)	(8.7)	173.3
Less working capital (US\$m)	-	-	0.9	15.7	16.1
Less finance costs (US\$m)	0.2	0.2	(0.9)	(6.3)	(9.9)
Less tax paid (US\$m)	-	-	-	(2.3)	(16.2)
Cash flow ops (US\$m)	(8.1)	(6.7)	(23.4)	(1.6)	163.2
PP&E - build (US\$m)	-	4.3	40.5	138.4	1.7
Cash flow inv. (US\$m)	(0.3)	(6.2)	(40.5)	(138.4)	(1.7)
Share issue (US\$m)	16.0	16.2	95.0	-	-
Debt draw (repay) (US\$m)	-	19.8	5.0	75.0	(14.2)
Cash flow fin. (US\$m)	16.71	33.8	100.0	75.00	(14.2)
Net change in cash (US\$m)	8.3	19.7	33.4	(95.6)	115.2

Balance sheet

	CY19E	CY20E	CY21E	CY22E	CY23E
Cash (US\$m)	18.4	40.0	73.4	(22.2)	93.0
Acc rec. + inv. (US\$m)	0.8	0.8	3.6	23.3	46.8
Non-Current (US\$m)	9.4	28.7	69.2	207.6	188.7
Total assets (US\$m)	29	70	146	209	328
Debt (US\$m)	-	20.0	25.0	100.0	85.8
Accounts payable (US\$m)	0.7	0.7	1.9	6.6	14.0
Total liabilities (US\$m)	0.7	20.7	27	107	100
Shareholders equity (US\$m)	38.9	66.2	161.2	161.2	161.2
Retained earnings (US\$m)	(11.2)	(18.1)	(42.5)	(59.8)	66.7
Liability + equity (US\$m)	29	69	146	208	328

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UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	34

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