

Adriatic Metals

Another de-risking event for a world class project

Important milestone – Rupice Environmental Permit received

Adriatic Metals has announced that the Federal Ministry of Environment and Tourism of the Republic of Bosnia and Herzegovina (BiH) has issued a positive Record of Decision to Adriatic's subsidiary, Eastern Mining for the Rupice Environmental Permit, following the submission of Environmental Impact Assessment on the mining and processing activities at Rupice. Rupice deposit makes up the key part of Adriatic's Vares project, with a high-grade mining reserve of 11.1 Mt, which will be mined for the first 10 years of the Vares operation according to the PFS released in October 2020. The environmental permit will now be issued within 30 days as per BiH regulations.

Submission for the Urban Planning Permit to follow

The permitting process in BiH now stipulates that Adriatic is to submit an application for an Urban Planning Permit to the Federal Ministry for Spatial Planning. This is the last key permit required prior to the application for an Exploitation Permit, which is the key permit for Rupice going forward, which is expected in Q2.

Following the path of Veovaca

The permitting process for Rupice mirrors that of Veovaca, a lower grade, lower margin orebody that makes up the Vares project together with Rupice. Adriatic was granted a full Exploitation Permit for Veovaca in late January, with the permit initiating the formal exploitation period of 30 years for Veovaca. We note that the Veovaca Concession Agreement covers both Veovaca and Rupice and the security of tenure applies to both the Veovaca open pit and processing plant areas, as well as the Rupice underground Mine. The Veovaca permit now allows Adriatic to complete the main mining project for the Veovaca open pit, processing plant, and the tailings dam.

Re-rating on the back of the imminent full operational permits

As we outlined in our previous notes on Adriatic, we view the permitting process in the BiH as prescriptive and predictable, which in our view has not been fully appreciated by the market. With Adriatic now approaching the end of the process towards obtaining the full operational permits at both Rupice and Veovaca, in our view, the market is likely to soon consider the Vares project as fully permitted. We believe this may attract the attention of the more risk averse mid-tier miners, who are looking to add world class polymetallic projects to their project pipelines, but are cautious about unpermitted projects in relatively new mining jurisdictions. Adriatic remains one of the most attractive polymetallic pre-production M&A targets, in our view, due to a lack of high-quality projects globally in junior hands. We see the core stand out features of Adriatic metals as follows:

- The world-class nature of the higher-grade Rupice polymetallic orebody;
- Low upfront capital costs of just US\$173m, which compares favourably with many lower grade, higher capital intensity projects in the sector;
- Excellent Vares project economics, which show an IRR of 141% according to our financial model of the project;
- Highly promising Kizevak zinc-lead project in neighbouring Serbia, which is showing real promise for an open-pittable asset with low strip-ratios, good metallurgy, and potentially good project economics.

Target Price remains at GBP 234 per share for 90% upside

Based on the current share price of GBP 123 per share, Adriatic Metals is trading on just 0.53x NAV according to our valuation. We believe this is too steep a discount for a company of Adriatic's quality and expect this to narrow in 2021. Adriatic's share price has been trading sideways for the last five months; however, in our view, the news of granting of the Rupice Exploitation permit, plus positive news from further work at the Kizevak project should act as catalysts for further share price growth in 2021.

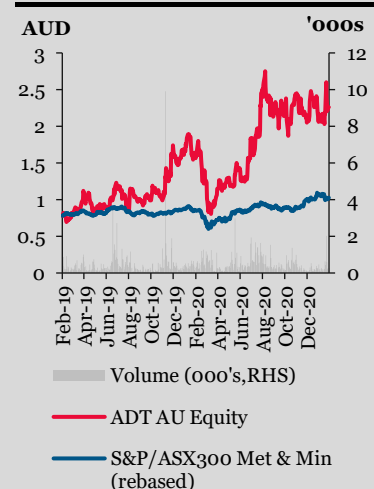
GICS Sector	Materials
Tickers	LSE: ADT1 ASX: ADT
Market cap 5-Feb-21 (£m)	247
Share price 5-Feb-21 (GBP)	123
Target price 31-Dec-21 (GBP)	234

US\$864m

H&P Vares project NPV at 10% WACC

Q2 2020

Expected quarter for the receipt of the key Rupice Exploitation Permit



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Financial Summary

Income statement						Cash flow statement							
Year end June		2019A	2020A	2021A	2022E	2023E	Year end June		2019A	2020A	2021A	2022E	2023E
Revenue	£m	-	-	-	17.1	151.4	Operating profit	£m	(3.3)	(8.7)	(9.5)	1.8	79.0
Cost of Sales	£m	-	-	(1.6)	(6.0)	(42.7)	Depreciation	£m	0.0	-	-	0.0	12.1
Depreciation	£m	-	-	-	(0.0)	(12.1)	Working capital change	£m	(5.1)	(8.7)	(9.5)	1.9	91.1
Other	£m	-	-	-	-	-	Other	£m	(0.1)	-	0.4	(6.2)	(38.9)
Gross profit	£m	-	-	(1.6)	(6.0)	(54.7)	CFO	£m	(5.2)	(8.7)	(9.1)	(4.4)	52.2
Administrative Expenses	£m	(2.4)	(3.3)	(2.4)	(2.4)	(2.4)	Purchase of PPE	£m	(1.7)	(0.0)	(0.1)	(60.2)	(70.9)
Exploration and Evaluation expense	£m	-	3.2	3.2	3.2	3.2	Other	£m	-	-	-	-	-
Profit / (Loss) from Operation:	£m	(2.9)	(6.8)	(7.2)	5.5	91.1	CFI	£m	(1.7)	(0.0)	(0.1)	(60.2)	(70.9)
Finance Costs	£m	(0.4)	(0.0)	(1.1)	(1.1)	(1.1)	Net Borrowings	£m	5.8	23.5	-	-	-
Finance income	£m	0.0	0.2	(1.3)	(1.3)	(1.3)	New equity issued	£m	-	15.6	-	-	-
Pre-tax profit	£m	(3.3)	(6.2)	(9.5)	3.1	88.7	Other	£m	-	0.3	-	-	-
Tax credit/(paid)	£m	-	-	-	1.3	9.7	CFF	£m	5.8	39.4	-	-	-
Profit after tax	£m	(3.3)	(6.2)	(9.5)	1.8	79.0	Net change in cash	£m	(1.2)	30.7	(9.2)	(64.6)	(18.7)
Other	£m	0.0	-	-	-	-	Beginning Cash	£m	4.6	3.5	34.2	25.0	(39.6)
Total income	£m	(3.2)	(6.1)	(9.5)	1.8	79.0	Ending Cash	£m	3.5	34.2	25.0	(39.6)	(58.3)
EBITDA		(2.9)	(6.8)	(5.6)	11.5	133.7							

Ratios and per share data						
Year end June		2019A	2020A	2021A	2022E	2023E
Yr end shares in issued	m	206.3	206.3	206.3	206.3	206.3
Revenue growth	%	0.0%	0.0%	0.0%	0.0%	784.4%
EBITDA margin	%	-	-	-	67.2%	88.3%
Pre-tax ROIC	%	0.0%	(10.3%)	(22.8%)	(14.8%)	225.6%
ROE	%	(35.9%)	(23.2%)	(56.9%)	9.9%	80.9%
EPS	GBp/sh	(1.5)	(3.0)	(4.6)	0.9	38.3
EPS growth	%	0.0%	90.6%	56.7%	(119.3%)	NM
Free cash flow	£m	(6.9)	(8.7)	(9.2)	(64.6)	(18.7)
FCF/share	GBp/sh	(3.4)	(4.2)	(4.5)	(31.3)	(9.1)
FCF yield	%	(0.0%)	(0.0%)	(0.0%)	(0.2%)	(0.1%)
Net debt/equity	%	(4.1%)	57.6%	93.0%	46.0%	(40.5%)
P/E	x	NM	NM	(1476.8x)	NM	178.4x
EV/EBITDA	x	0.1x	(2.2x)	(2.8x)	0.7x	(0.3x)
EV/Sales	x	NM	NM	NM	824.1x	92.9x
Net Debt/(Cash)	£m	(0.4)	15.1	15.6	8.6	(39.6)
EV	£m	14,098.6	14,114.1	14,114.6	14,107.6	14,059.4
Market Cap (Yr end)	£m	14,099.0	14,099.0	14,099.0	14,099.0	14,099.0

Balance sheet						
Year end June		2019A	2020A	2021A	2022E	2023E
Cash	£m	0.4	0.5	-	7.0	55.2
Receivables	£m	3.5	34.2	25.0	(39.6)	(58.3)
Inventory	£m	-	-	0.4	1.2	10.5
Other	£m	-	-	-	-	-
Current Assets	£m	3.8	35.9	25.4	(31.4)	7.3
PPE	£m	0.7	0.9	1.0	61.2	120.1
Other	£m	2.7	9.0	9.0	9.0	9.0
Fixed Assets	£m	3.4	10.2	10.0	70.2	129.1
Payables	£m	0.2	0.7	0.9	2.4	20.9
Short Term Debt	£m	-	3.1	3.1	3.1	3.1
Other	£m	-	0.0	-	-	-
Current Liabilities	£m	0.2	3.8	4.0	5.6	24.1
Long term debt	£m	-	12.5	12.5	12.5	12.5
Other	£m	(4.2)	0.3	0.3	0.3	0.3
Non Current Liabilities	£m	(4.2)	12.7	12.7	12.7	12.7
Total Equity	£m	8.9	26.3	16.8	18.6	97.7

Production volumes						
		2019A	2020A	2021A	2022E	2023E
Zinc	Kt	-	-	-	5.2	41.8
Lead	Kt	-	-	-	3.2	25.9
Copper	Kt	-	-	-	0.5	3.7
Gold	Koz	-	-	-	4.5	31.6
Silver	Koz	-	-	-	617.6	4,637.4
Barite	Kt	-	-	-	18.5	192.7

Cash Costs						
		2019A	2020A	2021A	2022E	2023E
Total Cash Cost	\$/oz	-	-	-	185.3	122.5
All in Sustaining Cost	\$/oz	-	-	-	192.7	127.4
Cost per tonne	\$/tonne	-	-	-	185.3	122.5

Reserves & Resources	Zinc	Lead	Copper	Gold	Silver	Barite
	Kt	Kt	Kt	Koz	Koz	Kt
Rupicee Attributable Resources: (M,LI)	475.3	307.4	51.7	528.1	55,208.0	2,922.8
Veovaca Attributable Resources: (M,LI)	107.9	63.5	-	20.1	9,667.7	974.0

Metal price assumptions						
		2019A	2020A	2021A	2022A	2023E
Zinc	\$/t	-	2,500	2,500	2,500	2,500
Lead	\$/t	-	2,000	2,000	2,000	2,000
Copper	\$/t	-	6,500	6,500	6,500	7,000
Gold	\$/oz	-	1,950	1,950	1,950	1,950
Silver	\$/oz	-	25	25	25	25
Barite	\$/t	-	125	125	125	125

Estimated Net Present Value per share / Price Target derivation					
	US\$m	P/NPV	US\$m	USc/sh	GBp/sh
Vares	864.5	0.7x	605.1	293.3	228.8
Serbian Assets	30.0	1.0x	30.0	14.5	11.3
Total NPV (8%)	894.5		635.1	307.8	240.1
Total cash surplus	20.2	1.0x	20.2	9.8	7.6
Total Debt - actual committed	(20.0)	1.0x	(20.0)	(9.7)	(7.6)
Corporate G&A (after-tax)	(16.9)	1.0x	(16.9)	(8.2)	(6.4)
Total NPV (10%)	877.8		618.5	299.7	233.8

Current P/NAV 0.53x

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