Andromeda Metals

ADN.AX

A research platform of MST Financial

03 June 2024

Earlier Expansion Plans as Demand Ramps Up

Equity Research Australia
Materials

Michael Bentley, Senior Analyst
michael.bentley@mstaccess.com.au

NEED TO KNOW

- Significant offtake agreements validate project quality
- Production expansion plans brought forward
- Funding negotiations continue to move forward

Binding offtake agreements for The Great White Project (TGWP) validate project quality; demand ramping up: ADN signed a key binding offtake agreement with IberoClays in Europe and has indicated that it expects binding agreements to reach 100ktpa.

Bringing forward expansion plans: With expected sales volumes now exceeding initial planned Stage 1A production capacity of 50ktpa, the expansion to what is now called Stage 1A+ has been brought forward. This will increase cumulative production capacity to 90ktpa. First production from Stage 1A is expected 10 months from FID and Stage 1A+ 7 months later. Later stages have also been rescheduled, including a target for TGWP to operate at 300ktpa 6 months before previously scheduled.

Funding plans progress: Key funding plans are progressing, with the goal of finalising them upon converting an offtake and funding agreement with Traxys to a binding agreement in the near term.

Investment Thesis

Funding as the next catalyst: ADN is on track to start production with significant binding offtake agreements in place. Finalising TGWP funding, after signing an agreement with Traxys, is the next catalyst for a re-rating.

TGWP's unique value proposition: The development-ready, world-class kaolin deposit has exceptional mineral characteristics and low production risks. Its products target premium, fast-growing market segments (ceramic tiles, porcelain tableware, cement additives). Located in the Tier-1 region of South Australia, TGWP benefits from low-risk mining and processing with a minimum 28-year mine life, positioning ADN to generate long-term, high-margin cash flow and create substantial value.

Path to significant EBITDA: Once funded, key steps to value creation include starting construction, signing additional offtake agreements for project expansion, commencing production, and ramping up to full capacity of 300ktpa of kaolin. At full capacity, and using ADN's DFS pricing scenarios, we expect TGWP to generate A$160m in EBITDA with margins of over 50%.

Valuation: A$0.22 (prev. A$0.21); Stage 1A+ Only - A$0.09

Our valuation for ADN is A$0.22/share. The valuation has increased by the bringing forward of production via Stage 1A+. Our scenario of valuing just Stage 1A+ also sees notable upside at A$0.09. We see strong upside to the share price as ADN funds, constructs and commences production at TGWP.

Risks

Key risks include funding issues, project delays, escalation in capital costs and inability to secure required offtakes.

Andromeda Metals is an Australian company with a vision to lead the world in the sustainable supply of superior quality industrial minerals. With its large, high quality halloysite-kaolin resources, ADN seeks to build long-term relationships with customers globally, supporting them to produce premium products and clean technologies. The company's core asset is The Great White Project (TGWP). www.andromet.com.au

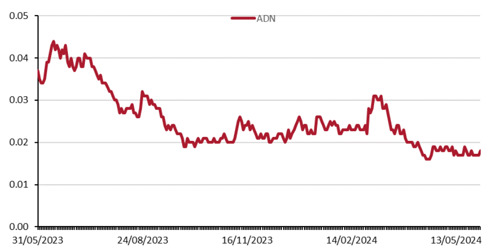
Valuation	**A$0.220** *(from A$0.210)*
Current price	**A$0.018**
Market cap	**A$56m**
Cash on hand	**A$7.87m** *(31 March 24)*

Additional Resources

Upcoming Catalysts / Next News

Period	
1HCY24	Final funding of Stage 1A+ of GWP
2HCY24	Commencement of construction
2HCY24	Bulk customer samples delivered
1HCY25	Commencement of production
Ongoing	Offtake agreement signing

Share Price (A$)



Source: FactSet, MST Access

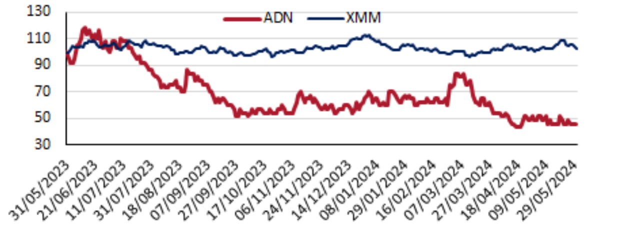
Figure 1: Financial Summary

ANDROMEDA METALS LIMITED — **ADN.AX**

Year end 30 June

MARKET DATA		
Share Price	A$/sh	**0.018**
52 week high/low	A$/sh	0.04 - 0.02
Valuation	A$/sh	0.22
Market Cap (A$m)	A$m	56
Net Cash / (Debt) (A$m)	A$m	8
Enterprise Value (A$m)	A$m	48
Shares on Issue	m	3,110
Options/Performance shares	m	27
Other Equity	m	498
Potential Diluted Shares on Issue	m	3,635

12-Month Relative Performance vs S&P/ASX Metals & Mining



INVESTMENT FUNDAMENTALS		Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Reported NPAT	A$m	(9)	(9)	(7)	19	63
Underlying NPAT	A$m	(9)	(9)	(7)	19	63
EPS Reported (undiluted)	¢ps	(0.3)	(0.3)	(0.2)	0.5	1.7
EPS Underlying (undiluted)	¢ps	(0.3)	(0.3)	(0.2)	0.5	1.7
Underlying EPS Growth	%	0.0%	0.0%	n/m	n/m	224.5%
P/E Reported (undiluted)	x	n/m	n/m	n/m	3.4	1.0
P/E Underlying (undiluted)	x	n/m	n/m	n/m	3.4	1.0
Operating Cash Flow / Share	A$	(0.00)	(0.00)	(0.00)	0.01	0.02
Price / Operating Cash Flow	x	n/m	n/m	n/m	n/m	0.9
Free Cash Flow / Share	A$	(0.00)	(0.01)	(0.00)	(0.02)	0.01
Price / Free Cash Flow	x	n/m	n/m	n/m	n/m	n/m
Free Cash Flow Yield	%	n/m	n/m	n/m	n/m	62.5%
Book Value / Share	A$	0.06	0.05	0.04	0.06	0.07
Price / Book	x	0.33	0.35	0.42	0.32	0.24
NTA / Share	A$	0.06	0.05	0.04	0.06	0.07
Price / NTA	x	0.33	0.35	0.42	0.32	0.24
Year End Shares	m	3,108	3,110	3,635	3,635	3,635
Market Cap (spot)	A$m	56	56	65	65	65
Net Cash / (Debt)	A$m	33	15	5	(36)	5
Enterprise Value	A$m	23	41	61	101	60
EV / EBITDA	x	n/m	n/m	n/m	2.4x	0.7x
Net Debt / Enterprise Value		(0.7)	(0.3)	(0.1)	0.7	(0.1)
Dividend Per Share	A¢ps	0.0	0.0	0.0	0.0	0.0

Profit & Loss (A$m)	Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Revenue	-	-	-	40	136
Expenses	(9)	(9)	(8)	(20)	(66)
EBITDA	**(9)**	**(9)**	**(8)**	**20**	**70**
D&A	(0)	(0)	(0)	(1)	(4)
EBIT	**(9)**	**(10)**	**(8)**	**19**	**65**
Interest	0	0	1	0	(3)
Tax	-	-	-	-	-
NPAT	**(9)**	**(9)**	**(7)**	**19**	**63**
Exceptionals	-	(0)	-	-	-
Reported Profit	**(9)**	**(9)**	**(7)**	**19**	**63**
Profit before tax	(9)	(9)	(7)	19	63

Balance Sheet (A$m)	Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Cash	33	15	5	23	88
Receivables	1	3	3	3	11
Inventory	-	-	-	2	7
PP&E	2	3	6	93	117
Exploration	137	142	142	142	142
Other	1	2	2	2	2
Assets	**174**	**165**	**158**	**265**	**367**
Creditors	2	2	2	3	11
Debt	-	-	-	58	83
Leases	1	1	1	1	1
Provisions	0	0	0	0	0
Other	0	-	-	-	-
Liabilities	**3**	**3**	**3**	**63**	**95**
Net Assets	**171**	**162**	**155**	**202**	**272**

Cashflow (A$m)	Jun-22	Jun-23	Jun-24e	Jun-25e	Jun-26e
Cash From Operations	(5)	(10)	(8)	22	72
Interest	0	0	1	0	(3)
Tax	1	0	-	-	-
Net Cash From Operations	**(4)**	**(9)**	**(6)**	**22**	**69**
Capex	(1)	(1)	(0)	(84)	(24)
Exploration	(4)	(8)	(4)	(4)	(4)
Investments	(6)	0	-	-	-
Free Cash Flow	**(15)**	**(18)**	**(10)**	**(65)**	**41**
Equity	43	-	-	25	-
Borrowings	-	-	-	58	25
Dividend	-	-	-	-	-
Net Increase / (Decrease) in Cash	**28**	**(18)**	**(10)**	**18**	**66**

Source: ADN; MST estimates

Market Demand Validates Project Quality

Significant offtake progress evident – IberoClays a major milestone

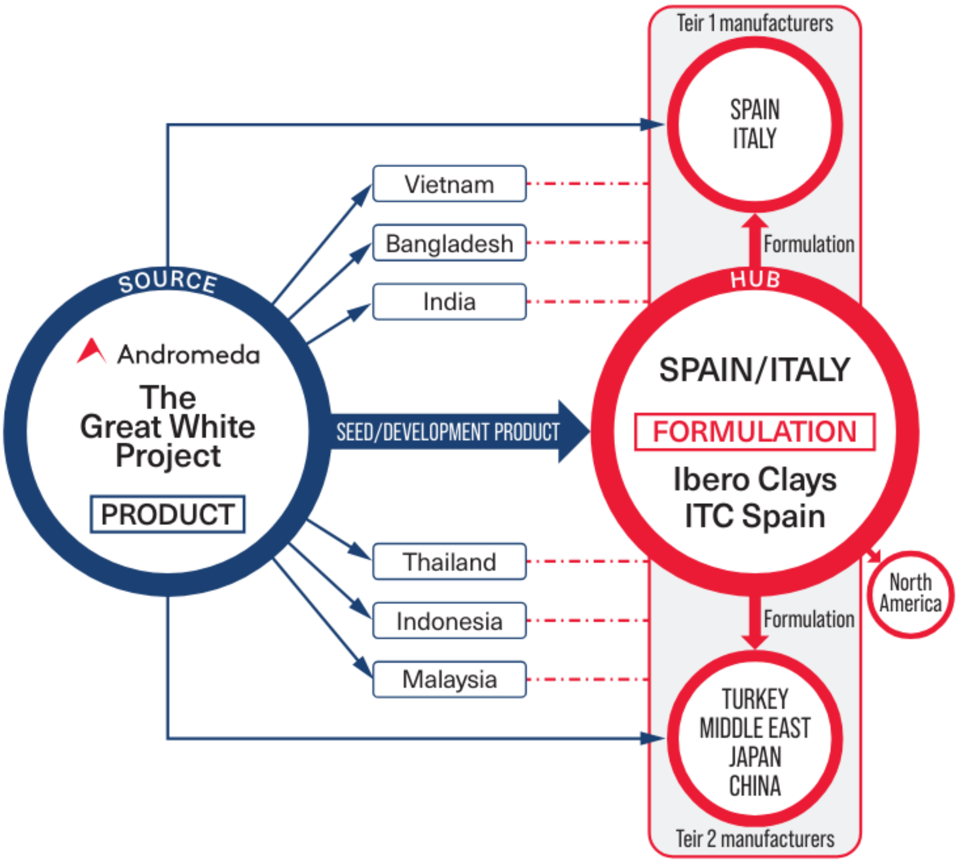
Over recent months, ADN has been focused on optimising its product marketing strategy, led by a focus on high-value European end-markets. The company has been gaining traction on its objective of securing binding offtake agreements with additional high-quality partners to underpin the expected production from TGWP, with a landmark binding agreement secured with IberoClays confirmed earlier this year.

IberoClays has been a key target customer for ADN due to IberoClays' market position as a world-leading formulator for high-quality ceramic tiles. ADN expects that inclusion within its formulations will open up broader opportunities within the regional market in Europe over time.

The offtake strategy also includes sale direct to tier 1 (predominantly Spain and Italy) and tier 2 manufacturers as well as selling product into the growing Asian market.

Figure 2 illustrates how this strategy is intended to take effect.

Figure 2: ADN's offtake strategy for the global high-quality ceramic tiles market



Source: ADN.

The agreement with IberoClays is central to ADN's success in the broader regional market, and therefore provides a couple of key positive indicators for the advancement of TGWP:

- **product quality validation:** This agreement validates the product's potential in high-value markets where long-term supplies of kaolin are of increasing concern
- **potential increased demand:** Inclusion within IberoClays' formulations is central to broader industry formulations in other regional markets, and therefore provides potential follow-on demand with other manufacturers downstream from IberoClays.

The agreement with IberoClays includes supply of 8–10k wet metric tonnes (wmt) in Year 1 and 10–20kwmt in Year 2 for sale into the ceramics and tile sectors, with a further 2kwmtpa in product earmarked for the concrete industry. As such the agreement accounted for a sizeable chunk of the initial production capacity at TGWP of 50ktpa.

The 5-year agreement makes IberoClays the exclusive distributor for TGWP kaolin in Italy, Spain and Portugal. The importance of market validation and alignment with the right end-market customers is a crucial component of effective development planning for kaolin, and ADN's success with a European leader such as IberoClays is highly significant. We highlight that IberoClays trades over 800ktpa of raw materials for ceramics.

Figure 3: IberoClays warehousing infrastructure at Port of Castellon in Spain

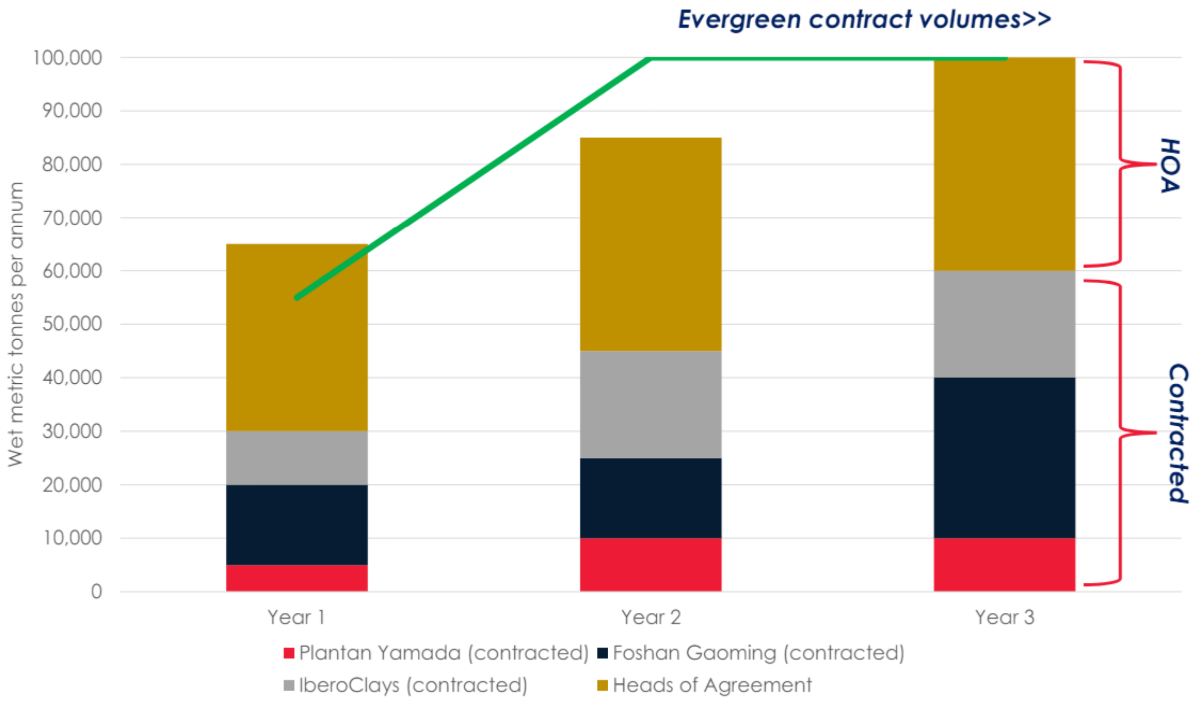
Source: ADN

Figure 4: Summary of ADN's binding offtake and marketing agreements

	Concentrate product: Great White KCM™ 90	Concrete product: Great White HRM™	Ceramic product: Great White CRM™
Product information	A semi-refined high-quality kaolin for direct use, further refinement or upgrade of resources • Highly consistent premium grade • Halloysite optimised • Suitable as feed for HPA	A refined kaolin for sale for use as a concrete and building product additive • Decarbonisation of concrete • Performance improvements • Cost and labour savings	A fully refined product for the high-end ceramics market • World-class grade • High whiteness and translucency • Good green and fired strength
Binding offtake arrangements and Marketing Arrangements	1. 5,000t in first year of production (suitable for HPA production)	1. A total of 22,500t over first 3 years of production (cement production)	1.A total of 115,000t over first 5 years of production (ceramics production)
	2. A total of 25,000t over first 3 years of production (suitable for HPA production)	2. 2,000 wmt per annum; Non-exclusive marketing and distribution rights in Spain and Portugal for concrete applications; Conditions precedent in IberoClays' favour relating to the certification for sales into Spain and Portugal, and the securing of an end-user agreement	2. 8,000 wmt in the first year, with IberoClays having an option to increase this to 10,000 wmt; 10,000 - 20,000 wmt per annum from the second year onwards (at Andromeda's option). Exclusive marketing and distribution in Spain, Portugal and Italy and non-exclusive rights in France, Morocco, Egypt and Turkey

Source: ADN.

Figure 5: Break up of ADN Offtakes Contracted and Heads of Agreement



Source: ADN

Converting offtake with Traxys to a binding agreement – a key for ADN

In November 2023, ADN announced a non-binding heads of agreement (HOA) with Traxys to "pursue mutually beneficial business opportunities linked to the sale and purchase of Andromeda's halloysite-kaolin products for distribution into ceramic tile production, and other applications, into selected geographies".

Since that agreement was confirmed, ADN has been negotiating with Traxys to convert the agreement to binding, and to identify potential sales geographies where the partnership could be focused, as well as undertaking product validation and refining the likely marketing approach for target markets identified. Importantly, financing options form part of the HOA.

The agreement with Traxys is targeting similar key terms to the binding agreement with IberoClays, with potential key terms outlined as follows:

- 5-year term commencing 1QCY25
- 20–30kwmt p.a. of the Great White CRM™ ceramics product
- 10–15kwmt p.a. of the Great White HRM™ concrete product

Given the discussions around potential financing solutions (see next section) included under the HOA, this process remains ongoing. However, the prospect of a significant de-risking milestone being confirmed over the near term is significant.

Management has indicated to the market that the negotiations with Traxys are at an advanced stage and that the company remains confident that an agreement will be signed.

Other non-binding agreements – Indian focus

ADN has signed a number of HOAs and MOUs that may lead to binding arrangements. One such major non-binding agreement is in India.

HOA with Opaque Ceramics, India

ADN has signed a non-binding HOA with Opaque Ceramics, which ADN regards as an “outstanding family-run company with proprietary technology and a wide range of products”. Opaque is currently using zircon as a pacifier to whiten certain products within its portfolio and, given the growing market concerns about the longer-term availability of sufficient zircon supply, ADN sees a significant opportunity to displace zircon across various applications, including paints and coatings. Opaque also has strategic strength in its established laboratories, which drives advantages in product development, enabling the potential for kaolin to be advanced as a potential zircon substitute in Opaque’s current manufacturing over the near term.

Key elements of this agreement include:

- the purchase by Opaque of 5,000–10,000 wmtpa of Great White CRM™ for direct sales and distribution into the ceramic tile, ceramic glaze, porcelain tableware and sanitaryware markets in India and potentially other markets, including Bangladesh, Sri Lanka, Middle East, Saudi Arabia and Oman
- the development of a new product, utilising an additional 5,000–10,000 wmtpa of Great White kaolin product, to enhance or expand the existing range of Opaque zircon-based products, through incorporating the unique qualities of Great White kaolin, including high brightness and its zircon replacement potential
- offtake term of 5 years, with first shipments planned during 1QCY25.

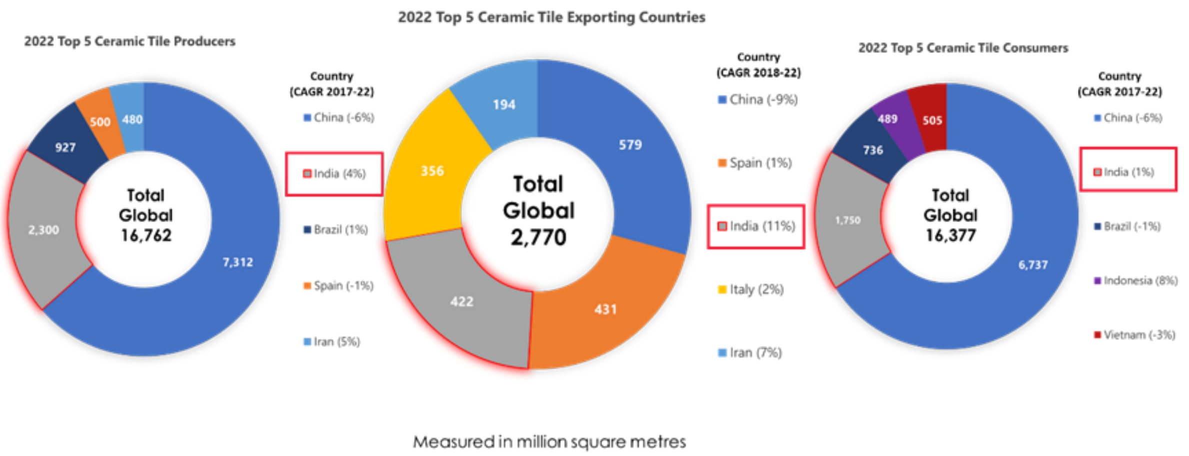
The HOA provides that binding offtake agreements are to be negotiated expeditiously and in good faith, following a framework for end-use customer acceptance and validation.

Indian market opportunity

The 'natural home' for product: During the period of work driving engagement in Europe, ADN also engaged with customers from other offshore markets – including India, where the advancing European relationships appear to have significantly aided potential end-market opportunities in this fast-growing region for ceramics production. A population of 1.4 billion people and a growing middle class, recent growth in production capacity as well as freight proximity (lower cost) and regulatory (free-trade) advantages make India the 'natural home market' for TGWP product.

India a rising leader in digital printing: India is amongst the global leaders in the key area of digital printing, where significant investment is being made in continuous printing infrastructure to compete head-to-head with Spanish and Italian producers. India has emerged as a significant exporter in the global market for ceramics and competes globally in both the high-end and commodity segments of the market.

Figure 6: Ceramic tile producers, exporters and consumers



Source: ADN

Strategic alignment with Hallet Group

ADN has a strategic partnership with Hallet Group, the largest integrated supplier of building/construction materials in South Australia, aimed at commercialising Great White HRM^{TM}.

ADN has been working on securing 'natural' partners within the local market for Great White HRM^{TM} in recent years. However, given the product is relatively novel in usage within cement and concrete, this has been a slow process. ADN expects the agreement to drive new product development within the South Australian market given Hallet is increasingly focused on innovation. ADN states that Hallet has existing unique formulations across a wide array of applications, and that the opportunity to commercialise Great White HRM^{TM} within the building and construction industry (aimed primarily at developing low-carbon alternatives) to supply industries in South Australia is large.

Supplying to a local company provides a significant logistical edge. In addition to the financial benefits of the agreement, this arrangement provides broader benefits to ADN such as access to supply of steel, timber and other services.

Funding Arrangements for TGWP Continue

Discussions on offtakes and strategic partners taking precedence

ADN’s key focus remains ongoing discussions with potential customers and other potential strategic partners. The company will prioritise completing these talks to lay the groundwork ahead of financing discussions based on the updated DFS released in August 2023.

ADN aims to firm up the project revenue to 70–75% bankable (i.e. supported by binding offtakes) across various end products.

Potential for higher debt capacity, with new markets realising higher returns

With emerging end-market opportunities, such as zircon replacement, potentially improving pricing and margins, management has indicated that these may improve the company's ability to service debt and lower its equity financing requirements for initial project capex.

Furthermore, ADN has indicated that HRM’s validation in core value-in-use properties, such as a rheology (flow) modification, increase in strength and reduction in cement, could drive a 2.5-3x increase in price versus that achieved for its kaolin ceramics products.

The overarching objective is to segment the market for the best possible returns and thereby realise the best possible financing solutions.

Traxys HOA shows potential of this strategy

The HOA with Traxys, although not binding, shows the potential of this strategy. Traxys is a globally significant company with a strong distribution network and a balance sheet to support debt and/or equity funding.

The partnership with Traxys has the potential to significantly derisk TGWP in a number of areas, further supporting an anticipated final investment decision (FID).

The relationship has the potential to accelerate the commercialisation of TGWP’s high-quality halloysite-kaolin products, through leveraging Traxys’ global reach, intimate working knowledge of industrial minerals supply chains and deep access to financing options.

ADN has flagged that the potential financing arrangements under this partnership include:

- supporting funding required through to FID
- acting as a potential cornerstone investor in the final project, financing equity raising and provision of required working capital facilities.

Traxys has a deep network of trading and financing relationships in industrial minerals. Access to this network has the potential to assist ADN in expanding across global markets, thereby securing further binding offtake commitments. In addition, the HOA includes debt and trade financing options, and potential cornerstone equity participation.

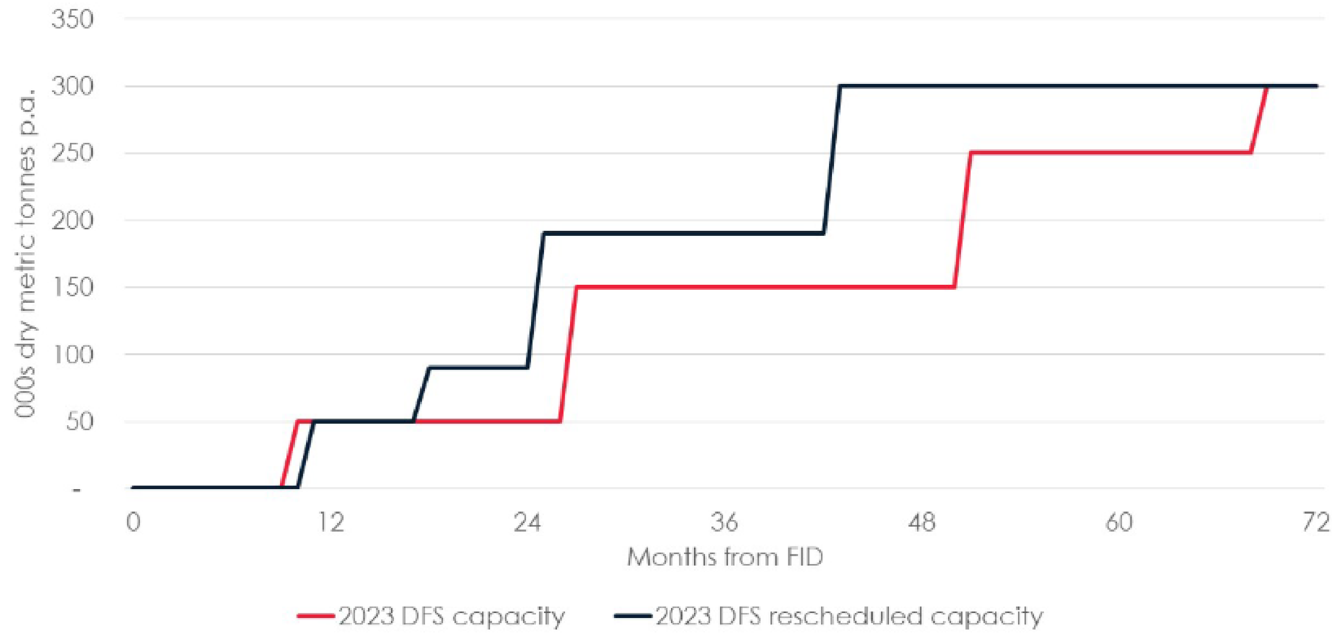
Pull Forward of Production and Cash Flow

Staged production plans realigned with demand

TGWP has moved rapidly towards a point where the existing staged production plan warranted review for increased capacity, particularly in light of the ongoing focus on optimising the product marketing strategy (led by a focus on high-value European end-markets) and highly credible and capable partners (IberoClays and Traxys) showing strong engagement.

As a consequence, ADN recently announced that it was bringing forward staged expansion from the initial Stage 1A nominal capacity of 50ktpa (with first production 10 months after FID). Under the new plan, ADN will increase cumulative nominal capacity to 90ktpa as an intermediate step 7 months later (in what is being dubbed 'Stage 1A+'). Furthermore, the company expects to expand production in 'Stage 1B', 7 months after that (a few months sooner than the original plan). Finally, ADN now expects Stage 2 to come on ~6 months ahead of prior expectations. Figures 6–7 summarise these changes.

Figure 7: 2023 DFS capacity vs 2023 rescheduled capacity



Source: ADN

Figure 8: Details of rescheduled capacity

	Stage 1A	Stage 1A+	Stage 1B	Stage 2	Total
Nominal kaolin production (dmt[2])	50,000 tpa	40,000 tpa	100,000 tpa	110,000 tpa	300,000 tpa
Nominal kaolin production (wmt[3])	~55,555 tpa	~44,444 tpa	~110,000 tpa	~120,000 tpa	~330,000tpa
Construction start (months from FID)	0 months	0 months	12 months	30 months	n/a
First production (months from FID)	10 months	17 months	24 months	42 months	n/a
Full production (months from FID)	16 months	23 months	30 months	48 months	n/a

Source: ADN

Note: ADN notes that these volumes exclude Great White HRM™, which may support future expansion opportunities as customer testing processes unfold.

Bringing forward production and cash flows

Importantly, ADN has noted that the existing DFS assumptions beyond the scheduling changes "have not materially changed". This is a positive indication of the current DFS's conservative approach, and improvements in cost inflation pressures that have been evident across the mining industry in recent years.

The revised schedule has 2 impacts in terms of net NPV impact, which offset each other:

- earlier production and cash flows
- pull forward of associated capex.

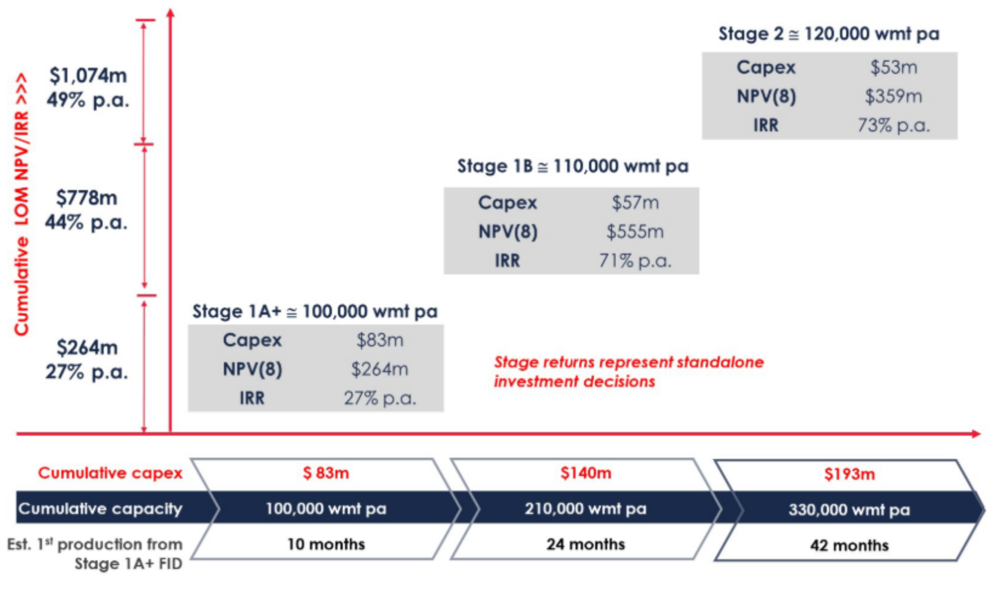
The critical Stage 1A+ component of the project, which targets 90ktpa (dry) through to month 24, requires $83m of capex. ADN is contemplating this stage in isolation of the remaining stages as a standalone investment decision to maximise the potential value realisation and avoid concentrated risks around higher funding requirements for the overall 300ktpa (dry) project.

ADN has provided an update to the current economic fundamentals of each stage of the project. The update indicates the following key metrics (see Figure 7):

- Stage 1A+: pretax NPV (8) of A$264m and IRR of 27% (post-Ttax NPV (8) of A$206m and IRR of 26%)
- Stage 1B: pretax NPV (8) of A$555m and IRR of 71% (post-tax NPV (8) of A$387m and IRR of 67%)
- Stage 2: pretax NPV (8) of A$359m and IRR of 73% (post-tax NPV (8) of A$242m and IRR of 57%).

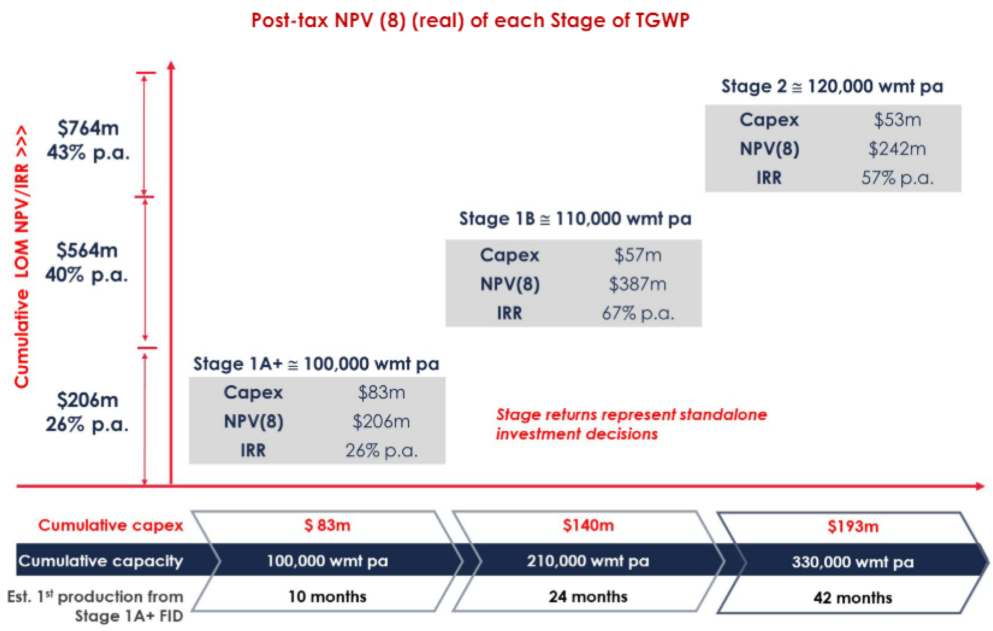
The analysis highlights that the reasonable returns indicated by Stage 1A+ are expected to accelerate as the project moves into larger-scale production under the following stages. As such, the project's economic tailwinds over time, and the significant de-risking and leverage that would result from a successful Stage 1A+, are an important consideration and validation of ADN's development approach after engagement with potential customers.

Figure 9: Pre-tax NPV (8) (real) of each stage of TGWP



Source: ADN.

Figure 10: Post-tax NPV (8) (real) of each stage of TGWP



Source: ADN.

New CEO Set to Drive the Next Phase

The current CEO, Bob Katsiouleris, has successfully steered ADN through a critical product marketing realignment process towards a less commoditised end-market strategy in partnership with high-value customers. With this program of works now significantly de-risked given the binding agreement with IberoClays and advanced negotiations with Traxys, Mr Katsiouleris will return to Europe and move into a Board advisory role. A new CEO, Luke Anderson, will take over in August.

Mr Anderson has extensive experience with industrial minerals companies globally as well as in logistics with specific experience in South Australia, most recently as the CEO of One Rail Australia, and prior to that CFO of Oz Minerals.

Prior to this, he was CEO and President at Unimin Corporation (renamed Covia Corporation in 2018), the largest industrial mining company in North America and a subsidiary of SCR-Sibelco NV, a major kaolin producer based in Belgium. Mr Anderson held a number of roles at Normandy Industrial Minerals, Australia's largest diversified industrial minerals producer and a division of ASX-listed Normandy Mining, which was later acquired by Newmont Corporation.

Mr Anderson has endorsed the refocused strategy implemented by Mr Katsiouleris, and his strong credentials will be pivotal in progressing the development of TGWP through to production, and for ADN's long-term success.

Mr Anderson has commenced a transitional period with Mr Katsiouleris prior to his formal appointment as CEO in August. He has joined ADN as a consultant, increasing his involvement with and access to the Board and management team in this interim period.

Valuation: A$0.22 (Previous A$0.21)

Earlier Production, Additional Capex

Small Upgrade to Valuation

Valuation summary: our analysis suggests strong upside

Based on our current assessment of the fundamental value of TGWP, we believe that ADN's share price is currently trading at a substantial discount to fair value.

Our NPV for ADN is A$0.22/share, fully diluted for remaining equity finance requirements to fund capital expenditure for the project. Our valuation indicates significant upside compared to the current share price.

Our methodology is summarised in Figure 10, assumptions shown in Figure 11 and key sensitivities detailed in Figure 12.

Production and Capex Brought Forward - Small Valuation Upgrade

The updated DFS in August 2023 illustrated substantial improvements in the already strong economic case underpinning the project.

TGWP has moved to a point where the existing staged production plan warranted review for increased capacity.

ADN brought forward staged expansion from the initial Stage 1A nominal capacity of 50ktpa (with first production 10 months after FID). Under the new plan, ADN will increase cumulative nominal capacity to 90ktpa as an intermediate step 7 months later ('Stage 1A+'). and the company expects to expand production in 'Stage 1B', 7 months after that (a few months sooner than the original plan). Finally, ADN now expects Stage 2 to come on ~6 months ahead of prior expectations.

The revised schedule has 2 impacts in terms of net NPV impact, which offset each other:

- earlier production and cash flows
- pull forward of associated capex.

The Stage 1A+ component of the project, which targets 90ktpa (dry) through to month 24, requires $83m of capex. ADN is contemplating this stage in isolation of the remaining stages as a standalone investment decision to avoid concentrated risks around higher funding requirements for the overall 300ktpa (dry) project.

We have taken into account the revised production forecast and have increased our valuation to A$0.22 from A$0.21, with the pulled forward capex almost netting out the value of the earlier cash flow. We do see strong logic for the change in production plan as it does pull cash flow forward and reduces overall capex risk for the entire product.

Figure 11: Valuation summary

NPV OF PROJECTS	A$M	Equity Value A$/Share Fully Diluted	Valuation Methodology
Great White Kaolin Project	797	0.22	Risked Project NPV
ENTERPRISE NPV	797	0.22	
Add: Cash	8	0.01	31st March 2024
EQUITY VALUE PRE SG&A	805	0.23	
SG&A	(25)	(0.01)	NPV of Corporate Costs
EQUITY VALUE	780	0.22	

Source: MST.

Key assumptions of our valuation

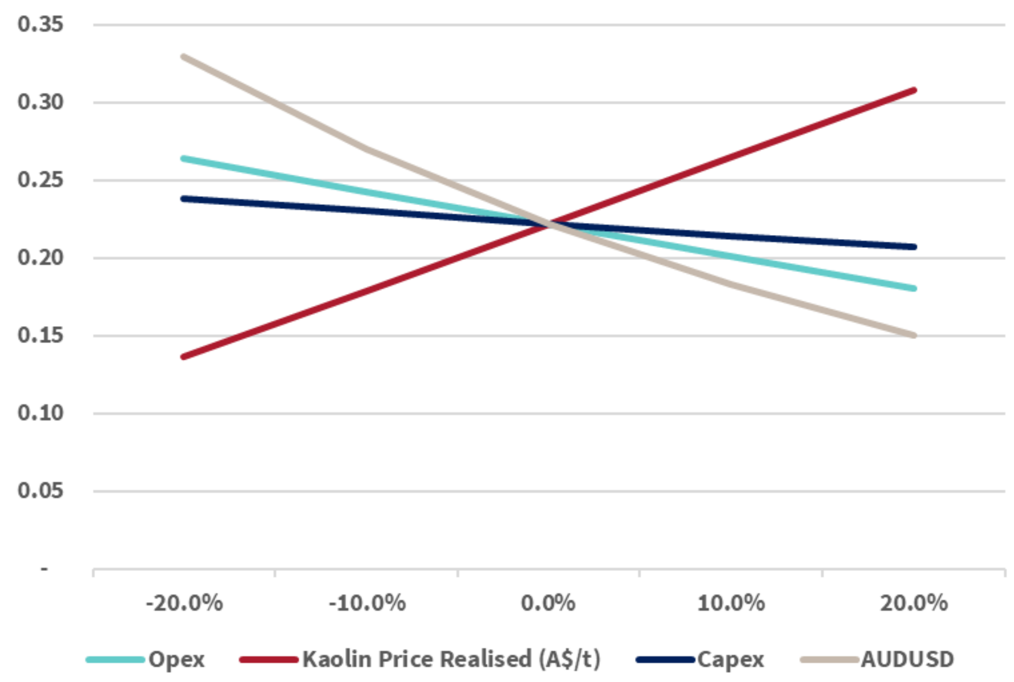
- An average realised product price of A$769/t (escalated at 2.5% p.a.)
- A mine development schedule as outlined in the 2023 DFS Rescheduled capacity and the inclusion of Stage 1A+ and incorporating a staged ramp-up to 300ktpa of product (600ktpa plant throughput)
- First product sales in FY25
- 70% debt funding for Stage 1A+, with an equity raising of A$25m @ $0.05 per share.

Figure 12: Key assumptions

Assumptions	MST
PROJECT ASSUMPTIONS	
Project Ownership (%)	100%
Strip Ratio (waste : ore)	2.3:1
Stage 1A production (dmt p.a) 10 months from FID	50,000
Stage 1A + production (dmt p.a) 17 months from FID	90,000
Stage 1B production (dmt p.a) 24 months from FID	100,000
Stage 2 production (dmt p.a) 42 months from FID	110,000
Final total production (wmt p.a)	300,000
Stage 1A+ Capex (A$m, real)	83
Stage 1B Capex (A$m, real)	63
Stage 2 Capex (A$m, real)	58
Mine Life (years)	28
Final Product Sold (kdmt, life-of-mine)	7,300
Average Annual Product Sold (kdmt, life-of-mine)	261
Ore Reserve (mt)	15.1
COST & FINANCING ASSUMPTIONS	
Discount Rate (%)	10.0%
Inflation Rate (%)	2.5%
Capital Cost, Stages 1-4 (A$m, real)	150
Operating Costs (A$/t feed, real)	184
AISC (A$/dmt product sold, real)	380
Pre-Tax NPV (A$m)	1,094
Post-Tax NPV (A$m)	797
PRICING & EXCHANGE RATE ASSUMPTIONS	
AUDUSD	0.65
Weighted Average Product Sale Price (A$/dmt)	769
Royalty Rate (%)	3.5%
Corporate Tax Rate (%)	30.0%

Source: MST Estimates

Figure 13: Sensitivity analysis



Source: MST.

What if Scenario? Only Stage 1A+ is completed

Valuation of A$0.09 Significantly Higher than Current Share Price

We have run a "what if" scenario looking at the case where only Stage 1A+ is ever completed. In this scenario we keep all other assumptions the same.

The inherent value of the project is demonstrated under this scenario, and shows the significant valuation gap from the current share price. A Stage 1A+ only valuation is A$0.09 per share, fully diluted, compared to the current share price of A$0.017.

Positive catalysts for the share price and valuation

- **Funding of Stages 1A and 1A+:** The funding of capital expenditure relating to major resource developments for small companies is always a major challenge and uncertainty. Delivery of a competitive funding package for the project would be a major de-risking catalyst for the stock.
- **Cornerstone investor, such as Traxys:** A cornerstone investor into the project would add significant credibility to the project as well as reducing the requirement for debt and/or equity market funding.
- **Binding offtake agreements and expanding markets:** Further binding offtake agreements with firm visibility on volumes and prices would be a significant de-risking catalyst for the project.
- **Early project delivery:** The early commencement of any of the stages of the project would generate cash flows sooner and would reflect positively on management, which would likely boost the valuation.
- **Price increases:** The valuation is sensitive to the underlying kaolin price. Price increases would have a positive effect on the valuation and share price.
- **Capital cost and/or operational cost savings:** Capital and operational cost savings would benefit the valuation and would reflect positively on management.

Risks to the share price and valuation

We highlight the key risks to the share price and our valuation below, noting that early-stage mining projects have a number of key risks which need careful management and consideration.

Company and project-specific risks

- **Access to funding:** There is no guarantee that sufficient funding will be available to advance or develop the project. The inability to secure funding would be a major negative for the stock.
- **Offtake risks:** Lack of progress or failure to sign offtake agreements present a major risk to the project.
- **Further delays to development:** Any delays in moving into construction would be a negative for the stock.
- **Cost inflation:** Inflation is an issue in the global economy at present and is particularly acute with regards to the mining industry. Any inflation in operational or capital costs without a corresponding increase in the commodity price would compress the project's margins and potentially undermine its economics and viability.

Macro risks

- **Approvals processes:** The mining lease is in hand, but some secondary approvals are required.
- **Kaolin price decreases:** This is the key valuation sensitivity (see Figure 10).
- **Foreign exchange rates:** As shown in Figure 10, material appreciation of AUD/USD would negatively impact our valuation. Our base-case assumption is $0.65 AUD/USD.

Mitigating factors

The project's location in South Australia close to port and other key infrastructure, as well as the simple, shallow nature of the deposit and conventional processing, are all notable tailwinds for the project. These favourable factors provide an offset to the risk inherent to a mining development in general as well as project-specific risks identified for the TGWP. These factors provide confidence in the project potential and offset the risk profile by:

- providing certainty around the project timeline (approvals, availability of labour and equipment)
- reducing technical risks given the project's history and access to qualified local mining capability
- minimising political risks given the supportive state government and local community
- benefiting from infrastructure tailwinds given the project's location close to the South Australian coastline.

Personal disclosures

Michael Bentley received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

Company disclosures

The companies and securities mentioned in this report, include:

Andromeda Metals (ADN.AX) | Price A$0.018 | Valuation A$0.220;

Price and valuation as at 03 June 2024 (not covered)*

Additional disclosures

This report has been prepared and issued by the named analyst of MST Access in consideration of a fee payable by: Andromeda Metals (ADN.AX)

Other disclosures, disclaimers and certificates

Methodology & Disclosures

MST Access is a registered business name of MST Financial Services Limited (ABN 617 475 180 "MST Financial Services"), which is a limited liability company incorporated in Australia on 10 April 2017 and holds an Australian Financial Services Licence (AFSL 500 557). This research is issued in Australia through MST Access, which is the research division of MST Financial Services. The research and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by MST Access is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a financial product you should read any relevant Product Disclosure Statement or like instrument.

ECM and corporate advisory services: MST Financial Services provides equity capital markets ("ECM") and corporate advisory services through its capital markets division, MST Capital Markets ("MST Capital"). MST Capital provides these services to a range of companies including clients of MST Access. As such, MST Capital may in the future provide ECM and/or corporate advisory services and, accordingly, may receive fees from providing such services. However, MST Financial Services has measures in place to ensure the independence of its research division is maintained, including information barriers between its Capital Markets and Research teams. In addition, neither MST Access, nor any of its research analysts, receive any financial benefit that is based on the revenues generated by MST Capital or any other division of MST Financial Services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently certified. Opinions contained in this report represent those of MST Access at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results and estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of liability: To the fullest extent allowed by law, MST Access shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained in this report. No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by MST Access, and under no circumstances will any of MST Financial Services' officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the content.

General Advice Warning

MST Access Research may not be construed as personal advice or recommendation. MST Access encourages investors to seek independent financial advice regarding the suitability of investments for their individual circumstances and recommends that investments be independently evaluated. Investments involve risks and the value of any investment or income may go down as well as up. Investors may not get back the full amount invested. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer's securities or investments. The information contained within MST Access Research is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy. Analysis contained within MST Access Research publications is based upon publicly available information and may include numerous assumptions. Investors should be aware that different assumptions can and do result in materially different results.

MST Access Research is distributed only as may be permitted by law. It is not intended for distribution or use by any person or entity located in a jurisdiction where distribution, publication, availability or use would be prohibited. MST makes no claim that MST Access Research content may be lawfully viewed or accessed outside of Australia. Access to MST Access Research content may not be legal for certain persons and in certain jurisdictions. If you access this service or content from outside of Australia, you are responsible for compliance with the laws of your jurisdiction and/or the jurisdiction of the third party receiving such content. MST Access Research is provided to our clients through our proprietary research portal and distributed electronically by MST Financial Services to its MST Access clients. Some MST Access Research products may also be made available to its clients via third party vendors or distributed through alternative electronic means as a convenience. Such alternative distribution methods are at MST Financial Services' discretion.

Access & Use

Any access to or use of MST Access Research is subject to the Terms and Conditions of MST Access Research. By accessing or using MST Access Research you hereby agree to be bound by our Terms and Conditions and hereby consent to MST Financial Services collecting and using your personal data (including cookies) in accordance with our Privacy Policy, including for the purpose of a) setting your preferences and b) collecting readership data so we may deliver an improved and personalised service to you. If you do not agree to our Terms and Conditions and/or if you do not wish to consent to MST Financial Services' use of your personal data, please do not access this service.