Peak Rare Earths, PEK.AX

Orior Capital
HONG KONG

Completion of FEED Study further enhances and de-risks Ngualla rare earth project

Completion of FEED further de-risks Ngualla

The FEED Study follows on from the completion of the BFS Update in October 2022 and the signing of a Framework Agreement in April 2023, and further de-risks the Ngualla rare earths project.

Peak successfully cut upfront capital costs by 10.6% by switching from owner-operated to contract mining, the use of a single cell tailings facility, rationalisations in road access and bulk earthworks, and with a better located airstrip. **Operating costs were cut by 17.8%** reflecting lower power costs attributable to an optimised BOO power plant contract, and lower logistics and reagents costs.

Ngualla is a financially robust project

Financial outcomes from the FEED Study evidence the robustness of the project across a range of rare earths pricing scenarios. In the Base Case scenario, in which life-of-mine average NdPr oxide prices are estimated at US$201/kg, Ngualla is expected to generate average EBITDA of US$281m pa, and a post-tax NPV_8 of US$982m, both attributable to Peak. Even at an NdPr oxide price of US$100/kg, the project would be expected to generate EBITDA of US$99m pa and a net margin of US$27,560 per tonne of NdPr oxide.

Next steps

With FEED completed, management is now focused on achieving Final Investment Decision (FID) and the start of development by June 2024. Various potential funding packages are being negotiated including with major shareholder and strategic partner Shenghe Resources (600392.SS) to take a major non-controlling interest at the project level, as well as with development and commercial banks. Macquarie Capital has been appointed as strategic advisor, in part to test other potential interest. **Ngualla is expected to generate strong interest from both financial and strategic investors.**

Shares look incredibly undervalued

The market is valuing Peak at an EV of just 4% of Base Case post-tax NPV_8. **This is an unusually cheap valuation** for a world class critical minerals project at an advanced stage of development. It represents an excellent opportunity for investors.

Valuing Peak at 50% of post-tax NPV_8, a year from now, that is post-FID, and with development underway, suggests a valuation of A$2.67/share. **This is more than 8x the current share price.**

14 December 2023

Key financial data	
Share price, A$/share	0.32
Share on issue, millions	264.6
Performance rights, millions	14.8
Fully diluted shares, millions	279.5
Market cap., A$ m	84.7
Net cash (30 Sept 2023), A$ m	21.1
EV, A$ m	63.5

Valuation

One year, A$/share	2.67
Based on FEED Study Base Case pricing scenario and 50% of NPV	
Three years (early 2027), A$/share	3.83
Ngualla in production and trading at 10x EV/EBITDA, strong rare earths demand, and market in deficit	

Website

www.peakrareearths.com

Company snapshot

Peak is developing the Ngualla rare earths project in Tanzania. Ngualla is one of the largest and highest-grade undeveloped rare earths projects globally. A BFS Update was completed in Oct 2022, a Framework Agreement in April 2023, and a FEED Study in Nov 2023.

Key catalysts and news

4Q23 to 1Q24: Results from exploration in the Northern and Breccia Zones

Early-2024: Decision around EPCM/EPC strategy

2Q24: Final Investment Decision, project funding and potentially the sale of project level stake

Share price chart

Source: ASX

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Peak looks incredibly undervalued

The valuation framework is based on the Base Case scenario in the Front End Engineering and Design (FEED) Study, 30 November 2023, and on valuing Peak at a percentage of NPV prior to production, and at a multiple of earnings once production commences.

The market is currently valuing Peak at an EV of just 4% of post-tax NPV_8 of US$982m (A$1,493m) based on the Adamas Base Case price scenario in the FEED Study, and at 6% of post-tax NPV_8 in the Adamas Downside Case price scenario. **These are unusually cheap valuations for a compelling critical minerals project that is substantially de-risked and significantly advanced.** This is especially so, given:

- Ngualla is one of the most advanced and highest grade rare earths projects globally
- Development of new rare earths supplies is critical to achieving global decarbonisation
- The sector faces significant supply deficits over the next few years
- Peak expects to receive strong support from major shareholder and strategic partner Shenghe Resources (600392.SS) with which it has already signed a binding offtake agreement and a non-binding EPC and funding MOU
- Shenghe appears highly motivated to assist Peak in bringing Ngualla into production given that MP Materials, a major supplier of rare earth concentrates to Shenghe, is moving downstream from concentrate production to oxides and magnets; this is expected to reduce global rare earth concentrates supply by approximately 15%

One year valuation of A$2.67

Generally, projects that are fully financed and approved and a year or so from cash flow can trade at 30% or more of NPV. In the past 2-3 years, projects in critical minerals have traded at higher multiples than this, reflecting incredible long-run demand growth prospects, the relative scarcity of good projects, and the market's increased appetite for environmentally and socially responsible investments. Although sector valuations are now at a low globally, by the time a Final Investment Decision is made, targeted for June 2024, Peak should be expected to trade at a more normalised valuation.

Valuing Peak at 50% of post-tax NPV_8, a year from now, suggests a valuation of A$2.67/share. **This is more than 8x the current share price.**

Figure 1: Valuation framework and potential outcomes

Timeframe	Valuation A$/share	Methodology	Comments
One year	2.67	50% of NPV	Based on the November 2023 FEED Study Base Case scenario and reflecting the advanced stage of the project, FID and project financing
Three years (early 2027)	2.95 to 3.83	8x to 10x EV/EBITDA	First year of full production 2027, after ramp-up through 2026 Market for NdPr products expected to be in deficit Rare earths magnet demand accelerating, driven by growth in EVs, offshore wind energy, and consumer electronics

Source: Orior Capital

Figure 2: Peak valuation model

Shares on issue, current	millions	264.6	
Performance rights	millions	14.8	
Fully diluted shares	millions	279.5	
Development			
NPV_8, post-tax	US$ m	982	FEED Study, November 2023, Base Case
NPV_8, post-tax	A$ m	1,493	pricing scenario, and attributable to Peak
A$:US$ fx rate		0.66	
1 year valuation based on % of NPV			
25%	A$/share	1.34	
50%	**A$/share**	**2.67**	
75%	A$/share	4.01	
100%	A$/share	5.34	
Production			
Capex	US$ m	387	Capex of US$287m plus US$100m being
Capex	A$ m	588	a conservative estimate of working capital
Debt	A$ m	353	Assume 60% debt
Equity	A$ m	235	Assume 40% equity…
New shares	millions	362	…Issued at A$0.65/share, about 12% of NPV
Fully diluted shares	millions	642	
Annual average EBITDA	**US$ m**	**281**	FEED Study, Base Case scenario
Annual average EBITDA	A$ m	427	
EV/EBITDA valuations			
6x	A$/share	2.08	
8x	**A$/share**	**2.95**	
10x	**A$/share**	**3.83**	Implies a market cap. of A$2.5bn
12x	A$/share	4.71	
14x	A$/share	5.58	

Note: NPV attributable to Peak is stated after all royalties, corporate taxes, withholding taxes and net of the Government of Tanzania's free carried interest.

Source: Orior Capital

Valuation of A$2.95/share to A$3.83/share as production commences

As Peak enters production the market is likely to value the company on its earnings. The project is expected to generate average annual EBITDA of US$281m in the FEED Study Base Case scenario. Upfront capital expenditure is estimated at US$287m, to which an additional US$100m has been assumed as a conservative estimate of required working capital for a total upfront financing need of US$387m. Assuming this is financed 60% debt and 40% equity with new shares issued at A$0.65/share (about 12% of post-tax NPV_8) and applying an EV/EBITDA multiple range of 8x to10x, **Peak could be valued at A$2.95/share to A$3.83/share. This represents 9x to 12x the current share price.** Assuming the market starts to value Peak on earnings in early-2027, after ramping-up from April 2026, **this would represent an annual return of 110% to 129% over the next three years**.

Although this valuation looks high in the context of the current terrible market for junior mining companies and Peak's much undervalued share price, it appears undemanding compared with the current market valuations of MP Materials (MP) and Lynas Rare Earths (LYC.AX), both profitable rare earths producers. Based on calendar years and consensus earnings forecasts, Lynas is trading at EV/EBITDA multiples of 19x in 2023 and 16x in 2024 and MP Materials is trading at 26x in 2023 and 13x in 2024.

Valuation sensitivity

In addition to the FEED Study Base Case scenario on which the above valuations are based, the FEED Study presents three other scenarios, all of which assume more conservative rare earths prices. In the Downside Case, which is based on price forecasts prepared by Adamas, post-tax NPV_8 attributable to Peak is US$724m. Valuing Peak at 50% of NPV would suggest a valuation of A$1.97/share, about 6x the current share price. Once production commences, Peak could achieve a valuation of A$2.26/share to A$2.96/share based on the same capital raising assumptions and valuation multiples as above.

Figure 3: Valuations based on the various pricing scenarios

		Base Case	Downside	Broker Consensus	US$100/kg
Development					
NPV_8, post-tax	US$ m	982	724	384	208
NPV_8, post-tax	A$ m	1,493	1,100	584	316
A$:US$ fx rate		0.66	0.66	0.66	0.66
1 year valuation based on % of NPV					
25%	A$/share	1.34	0.98	0.52	0.28
50%	**A$/share**	**2.67**	**1.97**	**1.04**	**0.57**
75%	A$/share	4.01	2.95	1.57	0.85
100%	A$/share	5.34	3.94	2.09	1.13
Production					
Capex	US$ m	387	387	387	387
Capex	A$ m	588	588	588	588
Debt	A$ m	353	353	353	353
Equity	A$ m	235	235	235	235
New shares	millions	362	362	362	362
Fully diluted shares	millions	642	642	642	642
Annual average EBITDA	**US$ m**	**281**	**225**	**134**	**99**
Annual average EBITDA	A$ m	427	342	204	151
EV/EBITDA valuations					
6x	A$/share	2.08	1.56	0.70	0.38
8x	**A$/share**	**2.95**	**2.26**	**1.12**	**0.68**
10x	**A$/share**	**3.83**	**2.96**	**1.54**	**0.99**
12x	A$/share	4.71	3.66	1.96	1.30
14x	A$/share	5.58	4.36	2.37	1.61

Note: NPV attributable to Peak is stated after all royalties, corporate taxes, withholding taxes and net of the Government of Tanzania's free carried interest.

Source: Orior Capital

Potential impact if Shenghe takes a major non-controlling stake in Ngualla

One of the current workstreams involves negotiations with Shenghe Resources (Singapore) around Shenghe purchasing a significant non-controlling interest in Ngualla at the project level. Assuming that a deal is structured around Shenghe, or indeed another strategic investor, acquiring a stake in Ngualla at the project level in exchange for substantially funding Ngualla into production, the impact on Peak's valuations could be very positive. Peak would largely avoid having to issue new equity.

One conceptual scenario would be for Peak to sell 33.6% (being 40% of 84%) in the project to Shenghe. Peak could retain a majority 50.4% stake (60% x 84%), Shenghe could acquire the 33.6% stake, and the Government of Tanzania would continue to hold the remaining 16%.

The post-tax NPV_8 of the project before upfront capital costs is approximately US$1,269m (being US$982m plus US$287m). (This is a simplification that ignores the fact that capital costs will be expensed over two years). Assuming the project takes on US$150m in debt to complete the financing package, then the equity value of project would be US$1,119m. The 60% of this attributable to Peak would be approximately US$671m (A$1,021m). This represents an NPV per fully diluted share of A$3.65.

As Ngualla enters production, Peak would have attributable EBITDA of A$256m pa (A$427m x 60%) and attributable debt of US$90m. Valuing this at 8x to 10x EV/EBITDA, and assuming no further equity issues, could underpin a valuation of A$6.84/share to A$8.67/share.

Figure 4: Estimation of value based on selling a stake in the project

NPV_8, approximation, pre-capital cost (84%)	US$ m	1,269
Assumed debt required to complete funding	US$ m	150
Equity value of project (84%)	US$ m	1,119
Attributable to Peak (60% of 84%)	US$ m	671
Attributable to Peak	A$ m	1,021
Attributable to Peak	A$/share	3.65
EBITDA attributable to Peak, annual average	US$ m	169
EBITDA attributable to Peak, annual average	A$ m	256
Valuation at 8x EV/EBITDA	**A$/share**	**6.84**
Valuation at 10x EV/EBITDA	**A$/share**	**8.67**

Source: Orior Capital

Snapshot of the FEED Study

The Ngualla project is one of the largest, highest-grade undeveloped neodymium and praseodymium (NdPr) rare earth projects globally. The Ngualla mine site is located in southern Tanzania, 4.5km north of the village of Ngwala, and 147km north of Mbeya, on the edge of the East Africa Rift Valley. It is centred on the Ngualla Carbonatite, a concentrically-zoned carbonatite complex with sufficiently large scale that Peak has been able to select the high-grade Weathered Bastnaesite Zone for initial development. The completion of the BFS Update in October 2022, the signing of the Framework Agreement in April 2023, and the completion of the FEED Study in November 2023, substantially de-risks the project.

Lower capital and operating costs

Following the BFS Update, the FEED Study aimed to optimise the project and to further de-risk it ahead of a Final Investment Decision (FID) targeted for June 2024 and the start of development activities. During the FEED Study, **Peak was able to reduce the upfront capital costs by 10.6%** from US$320.7m in the BFS Update to US$286.9m. Average annual **operating costs over the life-of-mine were reduced by 17.8%** from US$93.3m in the BFS Update to US$76.7m.

The reduction in capital costs has been driven by the adoption of the contract mining model, a reduction in tailings storage costs given the move to a single cell, rationalisation of road access and in bulk earthworks, a more cost efficient airstrip location, and others.

Figure 5: Upfront capital cost estimates, FEED Study and BFS Update

Capital cost element	BFS Update US$ m	FEED Study US$ m	Change US$ m
Roads and infrastructure	29.6	22.2	(7.3)
Mine equipment	6.6	0.4	(6.3)
Plant	69.2	67.6	(1.5)
TSF	18.2	17.2	(1.0)
Services	66.9	58.9	(7.9)
Bulk earthworks	9.3	7.9	(1.4)
Airstrip	5.7	4.1	(1.6)
Escalation and FX adjustments	0	3.1	3.1
Total direct costs	**205.5**	**181.6**	**(24.0)**
EPCM	32.6	29.5	(3.1)
Accommodation camps	22.3	19.8	(2.5)
Preliminaries and other indirect costs	12.6	12.7	0
Owner's cost	14.3	13.6	(0.6)
Contingency	33.4	29.7	(3.7)
Total indirect costs	**115.2**	**105.3**	**(9.9)**
Total upfront capex	**320.7**	**286.9**	**(33.9)**

Source: Peak Rare Earths

The reduction in operating costs has been driven by lower power costs attributable to an extension of the BOO power plant contract period from 10 years to 20 years, lower logistics and reagents costs, adoption of a lower Tanzanian diesel fuel price of US$1.17/litre (16% lower than assumed in the BFS Update), higher mining costs attributable to contract mining, and higher labour costs.

Figure 6: Operating cost estimates, FEED Study and BFS Update

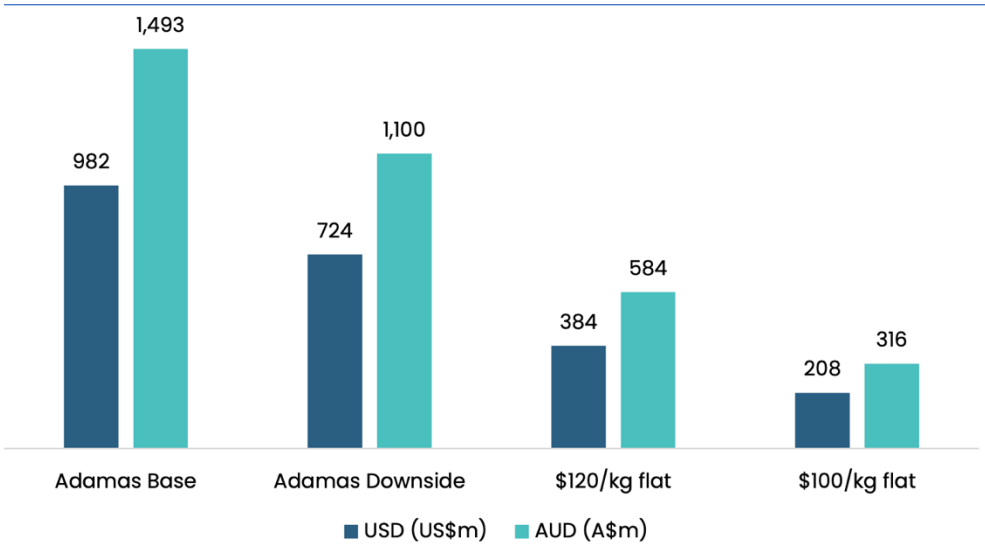
Operating cost Life-of-mine, average pa	BFS Update US$ m	FEED Study US$ m	Change US$ m
Mining cost	8.5	12.8	4.3
Plant labour	3.1	3.4	0.3
Power	21.9	17.4	(4.5)
Maintenance	2.2	2.2	0.0
Reagents	17.6	12.2	(5.4)
Consumables	1.9	1.9	0.0
Miscellaneous	4.5	4.4	(0.1)
General and admin	9.3	9.7	0.4
Mine site costs	**69.0**	**64.0**	**(5.0)**
Concentrate transportation	24.3	12.7	(11.6)
Costs (delivered to China)	**96.3**	**76.7**	**(16.6)**

Source: Peak Rare Earths

Financially robust project

The FEED Study demonstrates that Ngualla is a financially robust project that would be expected to generate high income levels at a variety of different price scenarios.

Figure 7: NPV_8, attributable to Peak based on different pricing scenarios



Source: Peak Rare Earths

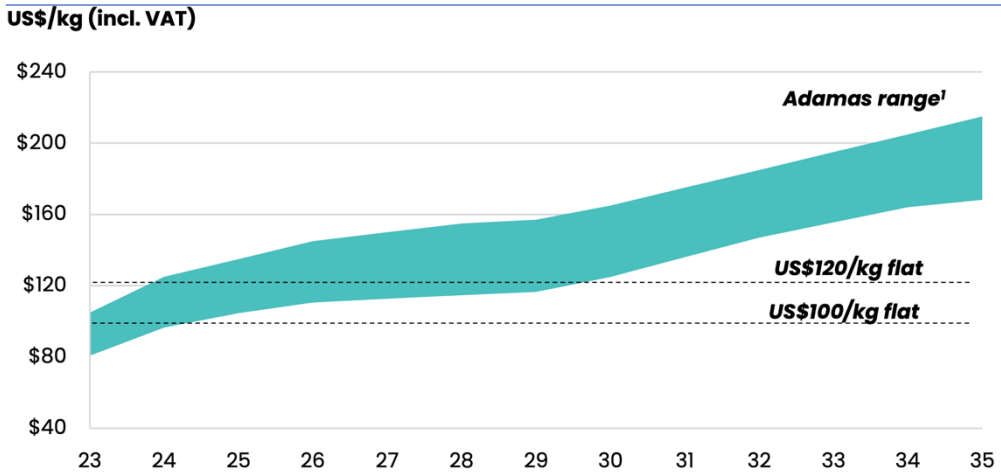
Figure 8: Key outcomes from different price scenarios

		Adamas Base	Adamas Downside	Broker Consensus	US$100/kg
NdPr oxide price (2026-2030)	US$/kg	153	130	120	100
NdPr oxide price (LOM)	US$/kg	201	171	120	100
Average net payability	%	53.7	52.6	50.8	49.9
Revenues, annual average	US$ m	404	339	235	194
Operating cash flow, annual average	US$ m	38	33	25	22
EBITDA, annual average	US$ m	281	225	134	99
NPV_8 real, post-tax, attributable to Peak	US$ m	982	724	384	208
NPV_{10} real, post-tax, attributable to Peak	US$ m	747	537	278	132
IRR, post-tax and royalties	%	33.8	28.8	24.7	18.8

Source: Peak Rare Earths

The price assumptions adopted in the FEED Study are based on forecasts developed by Adamas that reflect different global growth and EV uptake assumptions, as well as consensus forecasts, and a conservative downside scenario. These forecasts are lower than at the time of the BFS Update in October 2022. The NdPr oxide price forecast in the Base Case scenario has been lowered by 13% from US$231.88/kg (LOM) to US$201/kg. The forecast for the first five years of the project, 2026-2030, has been reduced by 22% from US$195.70/kg to US$153/kg.

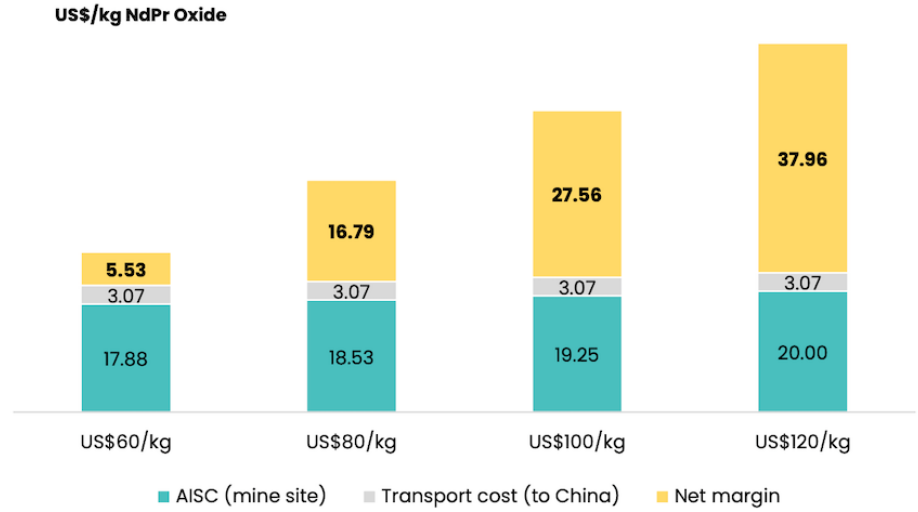
Figure 9: Forecast NdPr oxide prices in different scenarios



Source: Adamas, Peak Rare Earths

The net realisable price is after applying a payability factor to the gross basket price of the concentrate. At Ngualla, more than 92% of the basket price is attributable to NdPr oxide. The payability factor is based on the Binding Offtake Agreement signed with Shenghe Resources in August 2023. It reflects various factors including a product factor that represents the ease by which third-party refineries are able to sell the refined product, which is typically >95% for NdPr oxide, and lower for products such as cerium and lanthanum; a refinery charge which represents the cost of refining the concentrate into saleable oxides and the refiners' margin; factors for refining losses, and sales and distribution charges; and a deduction for Chinese VAT. The payability factor represents the ratio of the net price received for the concentrate to the basket value of the NdPr oxide and other rare earth elements.

Figure 10: All-in sustaining costs and margin sensitivity to selling prices



Source: Peak Rare Earths

Figure 11: Breakdown of payability, net prices and profitability at different NdPr oxide prices

Metric	NdPr oxide price, US$/kg			
	US$60/kg	US$80/kg	US$100/kg	US$120/kg
Payability	44.1%	48.0%	49.9%	50.9%
Net price received for ct. NdPr	26.48	38.38	49.88	61.03
By-product credits	2.65	2.88	3.00	3.06
Operating costs	(17.47)	(17.47)	(17.47)	(17.47)
Royalties	(1.99)	(2.86)	(3.70)	(4.51)
Rehabilitation	(0.16)	(0.16)	(0.16)	(0.16)
Sustaining capital	(0.91)	(0.91)	(0.91)	(0.91)
Transport to China	(3.07)	(3.07)	(3.07)	(3.07)
Net margin	**5.53**	**16.79**	**27.56**	**37.96**

Source: Peak Rare Earths

The breakdown of net margins at different price points demonstrates that **Ngualla is well-positioned to generate strong margins across the rare earths price cycle** – even at very depressed prices. Peak estimates that at an NdPr oxide price of US$100/kg, the project will generate a net margin of US$27,560 per tonne NdPr oxide. The all-in sustaining cost estimates include operating costs, by-product credits, royalties, rehabilitation provisions, sustaining capital expenditure, and shipping costs to China.

Production

The production figures have not changed from the BFS Update. The Ngualla flotation plant has a design ore processing rate of 800 ktpa. Overall TREO recovery is designed at 42.7% with a targeted concentrate grade of 45%. The project will benefit from an initial high-grade zone that is expected to be mined in years 1-6 of the operation resulting in a higher production rate of concentrate. This higher-grade zone hosts slightly higher proportions of neodymium and praseodymium.

Figure 12: Ngualla production summary

	Units	Years 1-6	Life-of-mine
Tonnes milled, pa	ktpa	800.7	794.8
Average grade milled	%	5.4	4.8
Concentrate production	ktpa (dry)	40.5	36.0
Concentrate grade	%	45	45
Concentrate production	ktpa TREO	18.2	16.2
NdPr % (of concentrate basket)	% mass	22.6	22.3

Source: Peak Rare Earths

Key optimisations

The FEED scope included a number of focus areas:

Contract mining: Whereas the BFS Update incorporated an owner-operator model with a leased fleet, it was concluded that a contract mining model be adopted, at least for the initial phase of the project. This removes some upfront capital expenditures, offers improvements in operational efficiency, supports greater local or regional content, avoids recruiting and training mining operators, and shifts responsibility for fleet maintenance to the contractor. In sum, using a contract miner is expected to reduce upfront capital costs by US$6.9m.

Process plant layout: The plant layout was further optimised to reduce bulk earthworks costs and to improve operability of the process plant. Key changes include a dedicated delivery corridor to the east of the process plant to divert transport activities away from operating and maintenance areas; relocation of the water services area; relocation of the bulk diesel storage area to be closer to major usage points; and development of a second reagent storage shed.

Figure 13: Optimised plant layout

Source: Peak Rare Earths

Tailings storage facility: The BFS Update assumed separate storage for the two process waste streams, barite concentrate and rare earth tailings. During FEED it was concluded that it would not be economic to reprocess either stream, and the TSF design was updated to reflect combined waste streams in a single cell.

Infrastructure optimisation: Major changes were identified for access roads, the airstrip, and construction and accommodation camps.

The Ngualla construction camp is connected to Kininga by the 45km Southern Access Road that was upgraded by Peak in 2021. This work included road realignments, improved roadbed substructure material, road profile shaping to aid drainage, additional drainage facilities, and new stream crossings. During FEED it was concluded that upfront capital costs could be reduced with the adoption of a care and maintenance model during the construction phase of the project as opposed to a major reconstruction and upgrade.

Upfront capital costs have also been reduced as a result of the Tanzanian Roads Authority recently improving some 75 km of roadbeds between Makangolosi and Kininga villages, and replacing two of the three bridge crossings identified in the BFS Update as being deficient (and with the third being identified as a priority).

The BFS Update envisaged major improvements to the existing Ngwala Village Airstrip in order to support a fly-in/fly-out schedule for some workers. During FEED, the Tanzanian Prison Commission offered the opportunity to relocate the airstrip 1.5km northwest of the existing airstrip to a location that offers capital cost savings and also improved operability and safety. Initially, the airstrip will be limited to 1,200m which is sufficient for Cessna Caravan aircraft and will enable cost savings.

Figure 14: Road connections to Ngualla and Mbeya

Source: Peak Rare Earths

During FEED, the accommodation camps were designed for a peak of 800 workers with a tented fly camp of 200 beds that should allow construction to commence in June 2024, a construction camp of a further 600 beds, both tented and hard-side, and an operations camp expected to house a workforce of some 260, with the hard-sided facilities retained.

Next steps

Key workstreams are expected to include a decision around the EPCM/EPC strategy, drilling and testing of the borefield, and bulk earthworks at the start of construction. Management is targeting a Final Investment Decision by June 2024, followed by commencement of construction and the first shipment of concentrate around the middle of 2026.

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