

24 June 2024

Strong Near-Term Catalysts

NEED TO KNOW

- UK land sale progressing
- Progress on phosphate development – MOU signed
- Strong funding interest from banks for Ngualla rare earths

UK freehold land sets up potential significant cash boost: Peak (PEK) has converted 19 hectares of prime UK leasehold land to freehold. The site is strategically located in the Teesside freeport area in northern England. PEK are assessing a number of monetisation options for the asset and aim to generate a significant cash boost for the company in the near term. Our review of recent sales suggests a minimum sale value of around A\$11m.

Phosphate development progresses strongly: High-grade phosphate in the Northern Zone of Ngualla has led to interest from a large Tanzanian fertiliser company and the signing of an MOU to progress its development.

Ngualla rare earths still the main game – strong funding interest from African banks: PEK continues to progress the Ngualla Rare Earths Project, pursuing further capex savings and development options. US\$177m of debt funding MOUs from various African banks have been signed. The Ngualla FID has been extended to December 2024 (from June 2024) for PEK to thoroughly examine all of its development options.

Investment Case

Near-term catalysts for PEK on many fronts: The sale of the UK land will enhance the cash position, and delivery of a development plan for the phosphate project at Ngualla will show a pathway to shorter-term cash generation. Key for Ngualla rare earths are further capex savings and FID.

PEK a crucial supplier to strategic partner: Shenghe, China's largest rare earth concentrate importer and PEK's major shareholder (19.8%), has a binding agreement for 100% of Ngualla's concentrate and 50% of future mixed rare earth carbonate. This fills a significant supply gap for Shenghe and positions Ngualla as a strategic asset.

Progressing a de-risked development pathway: PEK is working towards the optimal funding and development package for Ngualla to ensure maximum shareholder return. As part of this process, an MOU with Shenghe for a fixed-price development, funding solution and non-controlling strategic stake is being compared and contrasted with more traditional debt and equity solutions and alternative construction and strategic partner options.

Valuation: A\$1.28

Our base-case valuation is A\$1.28/share, fully diluted. This assumes PEK maintains its 84% ownership of Ngualla and raises A\$236m equity to fund PEK's contribution to the project. Where PEK divests a minority stake in the project and implements a strategic development and funding solution with Shenghe or another partner, our valuation rises to A\$3.53/share, fully diluted.

Risks

Key risks include funding, delays, increased capital costs and NdPr (neodymium and praseodymium) prices.

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Materials

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Peak Rare Earths, a leading mineral exploration and development company, is driving low-carbon technology advancements with its Ngualla Rare Earth Project. Since its discovery in 2010, Ngualla has grown to be a global leader in high-grade NdPr deposits, essential for manufacturing electric vehicles and wind turbines. The company's strategic focus on this project embodies its commitment to sustainable development and green transformation. www.peakrareearths.com

Valuation	A\$1.28 (from A\$1.32)
Current price	A\$0.19
Market cap	A\$51m
Cash on hand	A\$10.3m (31 March 2024)

Additional Resources

Upcoming Catalysts / Next News

Period	
2HCY24	Teesside sale advancement
2HCY24	Phosphate advanced
2HCY24	Capital Savings Ngualla
December 2024	FID

Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial summary – June year-end

PEK Limited						PEK AX
Year end 30 June						
MARKET DATA						
Share Price	A\$/sh	0.19				
52 Week Low	A\$/sh	0.18				
52 Week High	A\$/sh	0.58				
Market Cap (A\$m)	A\$m	51				
Net Debt / (Cash) (A\$m)	A\$m	(10)				
Enterprise Value (A\$m)	A\$m	41				
Shares on Issue	m	266				
Performance rights	m	13				
Shares Issued during Capital Raise	m	566				
Potential Shares on Issue (Diluted)	m	845				
12-Month Relative Performance vs S&P/ASX Metals & Mining						
INVESTMENT FUNDAMENTALS						
		FY22A	FY23A	FY24E	FY25E	FY26E
Reported NPAT	A\$m	(23)	(11)	(17)	(7)	(13)
Underlying NPAT	A\$m	(23)	(11)	(17)	(7)	(13)
EPS Reported (undiluted)	¢ps	(11.7)	(5.5)	(8.3)	(1.4)	(1.6)
EPS Underlying (undiluted)	¢ps	(11.7)	(5.5)	(8.3)	(1.4)	(1.6)
P/E Reported (undiluted)	x	N/A	N/A	N/A	N/A	N/A
P/E Underlying (undiluted)	x	N/A	N/A	N/A	N/A	N/A
Operating Cash Flow / Share	A\$	(0.06)	(0.05)	(0.08)	(0.01)	(0.02)
Price / Operating Cash Flow	x	n/m	n/m	n/m	n/m	n/m
Free Cash Flow / Share	A\$	(0.06)	(0.05)	(0.08)	(0.30)	(0.32)
Price / Free Cash Flow	x	(3.2)	(3.5)	(2.3)	(0.6)	(0.6)
Free Cash Flow Yield	%	-31.4%	-28.8%	-43.8%	-157.5%	-169.2%
Book Value / Share	A\$	0.34	0.42	0.34	0.41	0.39
Price / Book	x	0.56	0.45	0.56	0.47	0.49
NTA / Share	A\$	0.34	0.42	0.34	0.41	0.39
Price / NTA	x	0.56	0.45	0.56	0.47	0.49
Year End Shares	m	207	208	208	774	774
Market Cap (spot)	A\$m	39	40	40	147	147
Net Cash / (Debt)	A\$m	9	25	8	17	(232)
Enterprise Value	A\$m	30	14	32	130	379
EV / EBITDA	x	n/m	n/m	n/m	n/m	n/m
Net Debt / Enterprise Value		(0.2)	(0.6)	(0.2)	(0.4)	5.7
Dividend per share	¢ps	0	0	0	0	0
PRODUCTION AND PRICING						
		Jun-25e	Jun-26e	Jun-27e	Jun-28e	Jun-29e
Ore Mined (kt)		-	-	186	1,800	1,521
Total Mill Feed (kt)		-	-	-	723.0	804.0
Concentrate production at 45% TREO (kt)		-	-	-	33.34	39.22
NdPr Price (US\$/kg)		-	-	-	160.7	166.3
Realised Basket Price (US\$/kg)		-	-	-	21.1	21.6
Profit & Loss (A\$m)						
		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue		-	-	-	-	-
Expenses		(15)	(11)	(17)	(12)	(15)
EBITDA		(15)	(11)	(17)	(12)	(15)
D&A		(0)	(0)	(0)	(0)	(0)
EBIT		(15)	(12)	(18)	(12)	(15)
Interest		(8)	0	0	5	3
Tax		-	-	-	-	-
Underlying NPAT		(23)	(11)	(17)	(7)	(13)
Exceptionals		-	-	-	-	-
Reported Profit		(23)	(11)	(17)	(7)	(13)
Profit Before Tax		(23)	(11)	(17)	(7)	(13)
Balance Sheet (A\$m)						
		FY22A	FY23A	FY24E	FY25E	FY26E
Cash		9	25	8	262	13
Receivables		1	0	0	0	-
Inventory		-	-	-	-	-
PP&E		0	0	0	236	471
Exploration		59	60	60	60	60
Other		4	4	4	4	4
Assets		74	90	72	562	549
Creditors		2	1	1	1	-
Debt		-	-	-	246	246
Other		0	0	0	0	0
Liabilities		3	1	1	247	246
Shareholder's Equity		71	88	71	315	303
Cashflow (A\$m)						
		FY22A	FY23A	FY24E	FY25E	FY26E
Receipts from Customers		-	-	-	-	0
Payments to suppliers and employees		(12)	(11)	(18)	(12)	(16)
Interest Received		0	0	0	5	3
Other		-	-	-	-	-
Net Cash From Operations		(12)	(11)	(17)	(7)	(13)
Capex		(0)	(0)	-	(236)	(236)
Exploration		-	-	-	-	-
Land Sale		0	-	-	11	-
Net Investing Cashflow		(0)	(0)	-	(225)	(236)
Equity		33	28	-	241	-
Borrowings		-	-	-	246	-
Other		(14)	(0)	(0)	(0)	(0)
Net Financing Cashflow		19	27	(0)	486	(0)
Effects of FX		(0)	(0)	-	-	-
Net Increase / (Decrease) in Cash		7	16	(17)	254	(249)

Source: PEK, MST Access.

Near-Term Catalysts Line Up for PEK

PEK has several near-term catalysts with the potential to drive share price appreciation.

Catalyst 1: UK freehold land purchase to boost cash

PEK has acquired the freehold title over its 19-hectare Teesside site in the UK. The land holding is located within the Wilton International Site, which is near the town of Middlesbrough in the Tees Valley.

Teesside land no longer key to strategy

Originally the site was to be home to a rare earth refinery and separation plant. However, as Ngualla has progressed, the Tanzanian Government has been supportive of further processing being performed in-country in Tanzania, so the Teesside land is no longer core to PEK's strategy. Given that it has received a number of unsolicited approaches in relation to the land, PEK has decided to exit the asset and pursue a sale.

PEK moving towards monetisation

PEK have received a number of unsolicited approaches regarding the land. PEK are assessing potential near-term exit and monetisation options with the aim to generate a significant cash boost for the company in the near term.

Possible value of the transaction: around A\$11m (low estimate) to A\$18m (average) based on regional sales

We have reviewed a number of industrial sites in the immediate area, recent and ongoing sales (see Figure 2). While we note that the PEK site is a premium site with its proximity to the port and power, our review is high level and does not consider all of the positives and negatives of PEK's site compared to the other sales in the area.

As shown, the transactions/potential sales imply a price of A\$11.3m (lower end) to ~A\$18m (average) for PEK's land. The high price is ~A\$28m. Our expectations for the sale price would be somewhere between our low estimate and the average.

The sale would significantly boost PEK's cash position, which was A\$10.3m at 31 March 2024. We have assumed that there is no tax payable on the sale due to PEK's accumulated tax losses.

Figure 2: Industrial land sales, Teesside area

Date	Name	Location	Value (£)	Value Type	Area (sq.ft)	Value/Sq.ft (£)	Area (Acres)	Value/Acre (£)	Implied price - Teesside (£)	Implied price - Teesside (A\$)	
2024	Land at Telford Rd	Middlesbrough	550,000	Listing price - unsold	77,101	7.13	1.8	310,734	14.6	28.2	
2024	Land at Haverton Hill road	Middlesbrough	500,000	Listing price - unsold	174,240	2.87	4.0	125,000	5.9	11.3	
2024	Land at Haverton Hill Road	Billingham	500,000	Guide Price - Unsold	174,240	2.87	4.0	125,000	5.9	11.3	
2024	Site 6 Urlay Nook	Eaglescliffe	775,000	Listing price - unsold	165,528	4.68	3.8	203,947	9.6	18.5	
2024	Plot 5 Urlay Nook	Eaglescliffe	1,950,000	Listing price - unsold	339,768	5.74	7.8	250,000	11.7	22.7	
2024	Plot 4 Urlay Nook	Eaglescliffe	1,425,000	Listing price - unsold	248,292	5.74	5.7	250,000	11.7	22.7	
2024	Urlay Nook (whole plot)	Eaglescliffe	7,160,000	Listing price - unsold	1,386,950	5.16	31.8	224,874	10.6	20.4	
2024	Land at Skelton Industrial Estate	Redcar	550,000	Listing price - unsold	148,540	3.70	3.4	161,290	7.6	14.6	
2024	Mannion Park Development Opportunity	Redcar	6,000,000	Listing price - unsold	1,231,441	4.87	28.3	212,239	10.0	19.3	
2023	Land at South Bank	Middlesbrough	15,000,000	Sale Price	3,920,400	3.83	90.0	166,667	7.8	15.1	
2022	Cooling Towers & Land, Haverton Hill Road	Billingham	600,000	Guide Price	163,786	3.66	3.8	159,574	7.5	14.5	
Average									199,030	9.3	18.1
Median									203,947	9.6	18.5
Min									125,000	5.9	11.3
Max									310,734	14.6	28.2

Source: Comparable regional real estate sales and properties for sale.

Catalyst 2: Resource definition and development of phosphate project

PEK is advancing the Tier-1 Ngualla Rare Earths Project in Tanzania. The project is situated 1,050km from Dar es Salaam port. The company has an 84% interest in the project via its fully-owned subsidiary, Ngualla Group UK Limited, with the Tanzanian Government holding the other 16% through a free-carry agreement.

The background to the phosphate discovery

In March 2024, PEK announced the completion of an extensive drilling campaign in the Northern Zone and the Breccia Zone of the Ngualla Project. These zones are located ~2km north and north-east, respectively, from the Bastnaesite Zone that forms the basis of the Ngualla Rare Earth Project's Ore Reserves and Mineral Resources.

Both zones sit outside the current resource for the project. The campaign revealed significant high-grade mineralisation of the critical minerals phosphate and fluorspar as well as niobium and other rare earths.

Key phosphate interceptions – potential for early cash flow

The Northern Zone proved to have mineralisation of phosphate, niobium and rare earths. The key finding from the 44 RC holes drilled in the Northern Zone was significant amounts of phosphate that have strong potential for rapid development and early cash flow.

Key results included:

- 60m at 20.5% P₂O₅ from 10m
- 41m at 22.9% P₂O₅ from 39m to end of hole
- 40m at 20.3% P₂O₅ from 6m
- 32m at 22.0% P₂O₅ from surface.

Bioavailability analysis undertaken on composite samples from the Northern Zone has confirmed the suitability of Ngualla phosphate as a direct application fertiliser.

The phosphate market for PEK – a critical mineral

Phosphate is the natural source of phosphorous, an element that provides a quarter of all the nutrients that plants need for their growth and development. Phosphate rock is an increasingly important commodity with critical mineral status in the EU and China as well as strategic materials status in Australia.

Phosphate rock is processed to produce phosphorous, which is used in many products, notably as one of the three essential ingredients in fertiliser (the other two are nitrogen and potassium). Phosphate products can be used to deliver customised fertilisers for the specific needs of local soil, climate and crops and lead to higher crop yields, meaning higher crop production from less acreage.

Phosphate can be turned into phosphoric acid, which is used in everything from food and cosmetics to animal feed and electronics. Phosphate is also an important precursor to lithium-ion phosphate (LFP) battery technology, which has recently become the dominant EV battery technology in China.

Phosphate rock prices have increased at a CAGR of 65% over the last three years due to rising global demand to support agricultural yields and food security as well as the rapid emergence of LFP EV technology.

Rock from the Northern Zone could potentially be used as a direct application fertiliser, which would minimise beneficiation requirements and significantly simplify future development pathways.

Importantly, Ngualla phosphate is associated with low levels of deleterious elements, such as lead and mercury, by virtue of it being an igneous deposit.

MOU with Minjingu Mines and Fertiliser: potential co-operation around sales, offtake and co-investment

PEK has signed a non-binding Memorandum of Understanding (MOU) with Tanzanian phosphate and fertiliser group Minjingu Mines and Fertiliser (Minjingu).

About Minjingu

Minjingu is a private Tanzanian company with a significant presence in the Eastern and Southern African fertiliser market, with a key asset being the Minjingu Phosphate Mine in Tanzania. Minjingu is 60% owned by MAC Group, a large private Tanzanian conglomerate with interests across financial services, property, manufacturing and agriculture.

The core business of Minjingu revolves around the mining and processing of phosphate rock. The company's phosphate products serve as essential inputs for agricultural fertilisers.

Minjingu has a comprehensive sales and distribution network and sells phosphate products both domestically and internationally. The company serves the local Tanzanian market by distributing its phosphate products to agricultural retailers, cooperatives, and directly to farmers. Tanzania's agricultural sector represents a significant portion of Minjingu's sales, with the country's growing demand for high-quality fertilisers to support agricultural productivity.

Minjingu's distribution network covers Tanzania, South Africa, Zambia, Kenya, Uganda and Rwanda.

What the MOU covers

The MOU will evaluate potential co-operation around the future development of phosphate from the Ngualla Deposit, including:

- mining and beneficiation
- offtake and sales arrangements
- transport and logistics
- potential joint venture, co-investment, partnering and funding structures.

A joint study group will be formed imminently to fast track the development of a low-cost phosphate beneficiation flowsheet within six months.

Next steps regarding phosphate and key catalysts

The path to development of a phosphate project will require PEK to:

- update the conceptual model of the Northern Zone to identify future drill targets and preferential areas of mineralisation for future development
- establish a Maiden Resource for the project
- sign a definitive agreement with Minjingu Mines over development, funding, co-investment and sales of phosphate.

Catalyst 3: Further capital cost savings and optimisation at Ngualla – extended mining licence area helps reduce costs

The 2022 BFS estimated the Ngualla Project's total upfront capital expenditure to be US\$320.7m (2022 real dollars).

In November 2023, a Front-End Engineering and Design (FEED) study was published which reduced capex assumptions to US\$287m (-10.6%) with a switch from owner-operator to contract mining, scope refinement for earthworks and roads, and reduction of the TSF to a single cell. The FEED study also reduced opex (-17.8%) due to lower logistics and reagent costs as well as optimisation of the build-own-operate (BOO) power plant contract model.

PEK is now in the process of further refining capex assumptions and aims to make further significant cost reductions. The company is looking to further optimise the project through cost reductions in accommodation and airstrip and will be utilising the enlarged Special Mining Licence (from 18.14km² to 50.59km²) to take advantage of greater areas of flat land to improve overall plant and infrastructure layout and to reduce bulk earthworks, civil works and total length of roadways.

In addition PEK is targeting an increase in plant availability from 80% to 88%.

We view further reduction of capex as a significant positive catalyst for PEK.

Catalyst 4: Finalising funding and development options for Ngualla – FID December 2024

The Ngualla Project is one of the world's largest rare earth mineral resources, with 214.4Mt at 2.15% TREO. The project has an Ore Reserve of 18.5Mt at 4.8% TREO, where valuable NdPr represents 1.02%, the second-highest NdPr concentration in the world and contributing 92% of PEK's basket value. Production will be 40.5 ktpa at a grade of 45.0% TREO (NdPr 22.2%).

PEK is reviewing a number of attractive options to develop the Ngualla Rare Earth Project.

Binding offtake agreement with Shenghe - Shareholders and Tanzanian Mining Commission Approve

PEK and Shenghe Resources have signed a binding offtake agreement and a non-binding MOU covering the technical delivery and funding of the Ngualla Project. Shenghe is a leading entity in rare earth mining, processing, and distribution and is currently the largest importer of rare earth concentrate into China. The offtake agreement guarantees the purchase of 100% of Ngualla's concentrate production and half of any future mixed rare earth carbonate (MREC) and separated oxide output for the first 7 years.

Conditions Precedent (CP) for the offtake agreement included the approval by PEK shareholders and the Tanzanian Mining Commission, both of which have occurred. All other CP's have been satisfied or waived.

Development and funding options for Ngualla

PEK is reviewing a number of attractive options to fund and develop the Ngualla Rare Earth Project.

Co-operation with Shenghe – strategic partner, funding and construction

Whilst negotiations are continuing with Shenghe, broad co-operation and transaction principles have been agreed between the 2 parties:

- Shenghe to subscribe for an interest of up to 50% in Ngualla Group UK Limited (NGUK), the holding company of PEK's 84% interest in Ngualla
- Continued collaboration on further capital and operational cost savings
- Shenghe to tender a proposal to provide an EPC, EPS or EPCM solution
- Peak and Shenghe to finalise negotiations on an agreed value for Shenghe's interest in NGUK
- Both parties to work together towards a FID by 31 December 2024
- Shenghe to deliver a complete funding solution for the project

Alternative strategic partner

A key objective is for a Ngualla Project investment to be at a materially higher valuation than that implied by PEK's current share price.

PEK is also reviewing alternative strategic partners to ensure the highest value can be extracted from the sell-down of a minority stake in NGUK.

Alternative project construction options

PEK is assessing alternative EPC, EPS or EPCM solutions with local African providers to ensure that the optimal development package is obtained.

Traditional debt financing options – US\$177m Indications to date

PEK continues to make strong progress with its project financing workstream which will complement any equity funding from a strategic partner. PEK has received non-binding expressions of interest for debt funding to date of ~US\$177m. Strong lending appetite has come from a number of sources:

- African Development Finance Institutions (AFDIs)
- Export Credit Agencies (ECAs)
- commercial banks.

Discussions are continuing with other commercial banks and AFDIs, and several Tanzanian banks have expressed interest in arranging a significant local tranche.

PEK is targeting a fully formed funding consortium by 30 June 2024.

Additional Catalysts Driving the Investment Case

Rare earths outlook: fuelling future energy transformation

We project the price of rare earths, especially NdPr, to rise, driven predominantly by the surging demand in energy-transition applications such as EV motors and wind turbines. In 2022, these applications consumed magnet rare earth oxides, including NdPr, valued at \$3.8 bn. Adamas Intelligence predicts this figure will experience a 19.1% CAGR, surging to \$36.2 bn by 2035. This escalating demand is primarily driven by passenger EV traction motors and increased by wind power generators.

NdPr oxide is expected to witness the most significant value increase 11-fold by 2035 as per Adamas Intelligence. This anticipated surge is attributed to comprehensive demand growth, escalating prices, and a trend towards employing more NdPr in high-grade rare earth magnets (NdFeB). However, supply analyses from Adamas Intelligence suggest that by 2035, NdPr oxide supply will struggle to meet this booming demand, leading to pronounced shortages of these essential magnet materials.

Exploration adds options; potential early cashflow

The outstanding exploration results identifying substantial fluorspar in the Breccia Zone and phosphate in the Northern Zone has added significant optionality to the project. PEK continues to evaluate low-capital development pathways for these commodities which complement the delivery of the Ngualla Rare Earth Project. In addition to phosphate and fluorspar, PEK has also encountered elevated levels of niobium and heavy rare earths in the Northern Zone which it will continue to evaluate in the coming months.

Tanzania: attractive business jurisdiction

Tanzania offers political stability, economic growth, and expanding industry, marking it as a notable investment destination in East Africa. The nation has achieved a growth rate of 7.6%pa pre-pandemic, coupled with declining inflation and poverty.

Mining sector growth

Under the leadership of President Samia Suluhu Hassan's, Tanzania is leveraging its mineral wealth, targeting a 10% GDP contribution from mining by 2025. The sector's rapid growth, marked by 8 significant mining agreements, positions Tanzania as a prime mining investment hub.

Enhanced international relations and business climate

Following a visit by the US Vice President to Tanzania in 2023, an MOU was announced between Tanzania and the Export-Import Bank of the United States, paving the way for US\$500m in export financing. Furthermore, a B2 Positive credit rating from Moody's in 2023, prompted by political stability and reforms, signals an investor-friendly climate.

Valuation: We See Big Upside – And Even More Possibilities

Our base-case risked NPV-based valuation for PEK is A\$1.28/share (previously A\$1.32) on a fully diluted basis. Our valuation has decreased marginally due to some minor financial model changes. We see significant additional upside in the valuation if PEK completes a sell-down of the Ngualla Project, with a potential upside case of A\$3.53, and further potential upside to our valuation with the development of phosphate and/or fluorspar projects.

Rare Earth

Sector Share Price Performances Weak - Presents Opportunity

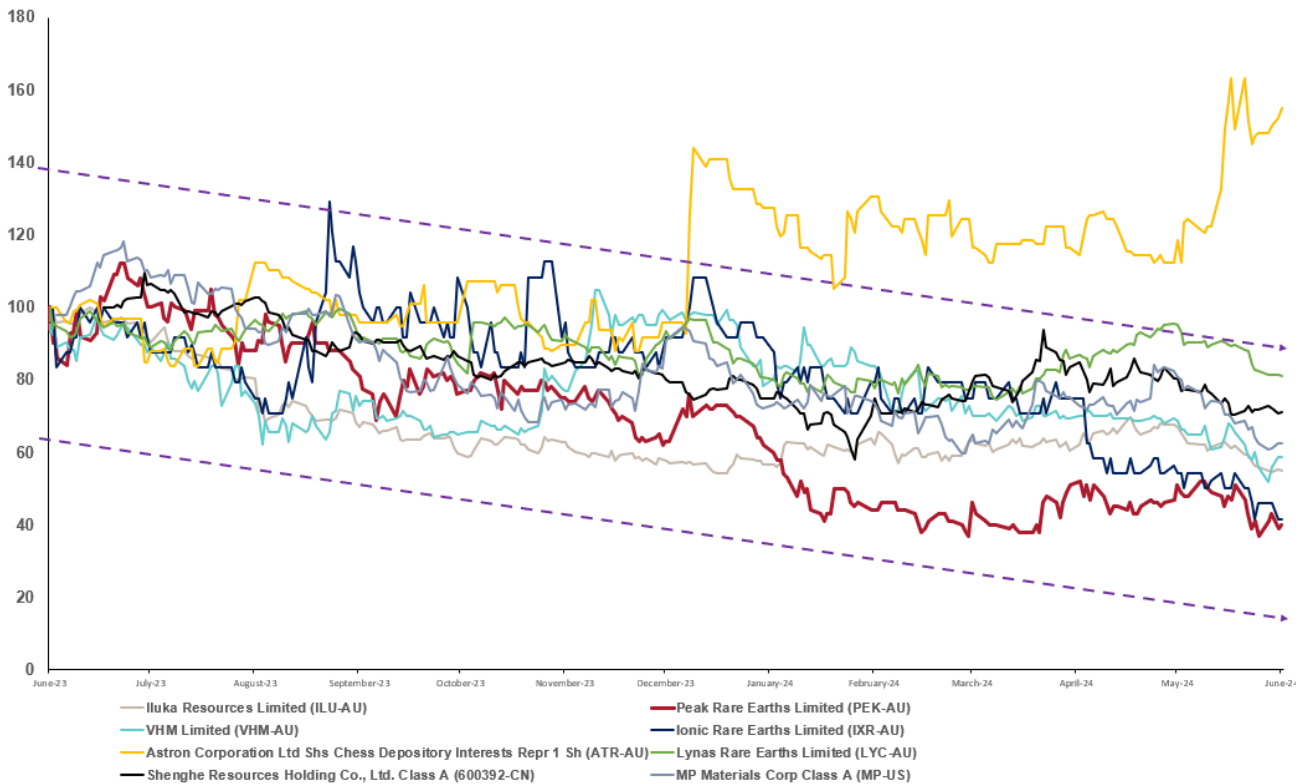
PEK has been sold down recently from around A\$0.55 to A\$0.19 over the last 12 months. The performance has reflected a sector wide issue as the market continues to be bearish on rare earth prices and, in a more macro sense, small- and micro-cap stocks.

Figure 3 shows the performance of PEK over the last year compared to both large cap rare earth / Industrial Minerals producers as well as smaller comparable companies. The charts demonstrate the weak sector performance, with particular weakness at the smaller end where funding is being sought.

Note the significant outlier is Astron, whose performance has been driven by the recent announcement of a strategic partner acquiring 49% of the project, and demonstrates the funding of a project as a key share price performance driver.

We continue to value PEK with a long term view, taking a positive view on the rare earths sector and consider current prices are unsustainable and do not support new supply entering the market. We also take the view that the Ngualla project is a particularly high quality asset.

Figure 3: 1 Year Performance Rare Earth Comparables



Source: Factset

Base-case valuation: risked NPV implies almost 5x potential upside

Our financial analysis of the flagship Ngualla Project (84% ownership) values PEK at A\$1.28 per share, fully diluted, while the un-risked valuation is A\$1.63/share. We summarise our base-case valuation in Figure 4. Our analysis uses a discount rate of 10% and a probability risk weighting of 80%.

Furthermore, we have attributed a net asset value (NAV) of A\$1,083m compared with the current market value of ~A\$51m. In our valuation, we assume that A\$236m in equity will be raised at A\$0.42 per share. Our valuation also includes the Teesside land sale, which has the potential to generate a significant cash boost for PEK and alleviate the need for further capital raisings leading into the development of the Ngualla Project.

The valuation excludes the potential of the development of phosphate, fluorspar or niobium at Ngualla due to the early stage of the projects, but we do see the potential for early cash generation from these commodities and the potential for a low-capex, rapid development project. Our valuation also does not consider any potential sell-down of the project to Shenghe. We believe NdPr is under-appreciated with strong structural tailwinds, and we see the potential for tight medium-term fundamentals in the NdPr market.

Figure 4: Base-case valuation summary

PEK (MSTe)				Jun-24	
	Discount rate	US\$mn	Risk weighting	AUD\$mn	AUD\$/sh
Ngualla (84%)	10.0%	948	80.0%	1,083	1.29
Total operating assets				1,083	1.29
Corporate/SG&A				(30)	(0.04)
Land Value Teesside				11	0.01
Net cash/(debt) (\$AUD)				10	0.01
Net Asset Value				1,074	1.28
Current Share Price					0.195
Upside					557%

Source: MST estimates.

Figure 5: Base-case valuation assumptions (MST vs. PEK)

Financial Performance Summary	Unit	PEK	MSTe
Construction commencement year	Year	2024	2025
Construction period	Years	2	3
Avg. NdPr price (first 5 years)	US\$/kg	153	172
Avg. NdPr price (LOM)	US\$/kg	201	197
Upfront development capex	US\$m	287	330
AISC at US\$60/kg NdPr (inc. conc transport)	US\$/kg	21.0	23.9
Avg. annual operating cost	US\$m	77	80
Average annual EBITDA	US\$m	281	314
NPV10 (Post-tax, ungeared, and after 16% free carry)	US\$m	747	948
IRR (Post-tax, ungeared, and after 16% free carry)	%	34%	41%

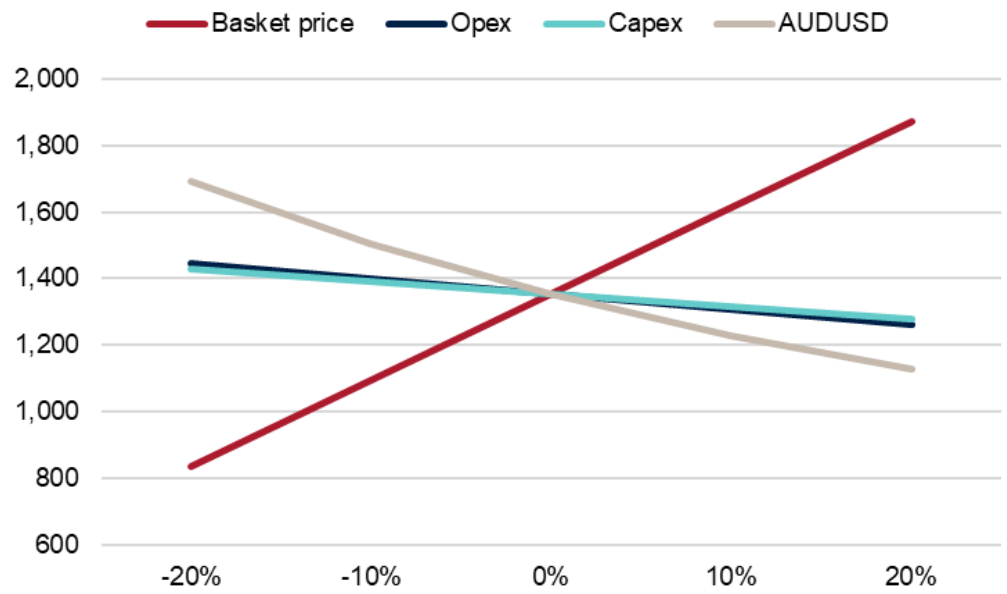
Source: PEK, MST estimates.

We have assumed a capital raising (50/50 debt to equity) of A\$236m to fund the pre-production capex of US\$330m for the project. We have assumed an issue price of several times greater than the current share price (as we expect share price appreciation as PEK confirms any debt funding options). The share count increases by 554.1m as a result.

Key sensitivities

As shown in Figure 5, our valuation is most sensitive to assumptions on the NdPr oxide price and to a lesser extent the AUD/USD exchange rate, opex and capex.

Figure 6: Key sensitivities (A\$m Ngualla valuation unrisked; % change from valuation)



Source: MST estimates.

Scenario analysis: non-controlling equity interest – a significant uplift

PEK continue to assess a number of potential funding, strategic partnering and construction options that may lead to a different combination of debt, equity and construction to our assessed base case and upside valuations. We consider that any combination that was different to our assessed cases would see a revised valuation that is in between our base case and upside valuations.

'Upside-case' valuation: A\$3.53

As announced on 9 August 2023, PEK has signed a funding MOU for Ngualla with Shenghe. This entails Shenghe acquiring a notable non-controlling stake in the Ngualla Project, significantly reducing PEK's funding needs. We have analysed a scenario where 40% of Ngualla UK is sold to Shenghe for a turnkey project funding and engineering, procurement, and construction (EPC) solution. This assumes PEK holds an effective 50.4% stake in the project (60% of 84%), while Shenghe secures 33.6% (40% of 84%) in exchange for the EPC solution, encompassing the project's construction.

In this analysis, we value PEK at A\$3.53 per share on a fully diluted basis, as detailed in Figure 6. The additional valuation in this scenario is attributed to:

- no initial cash outlay by PEK at the project's inception
- no equity dilution (as there would be no issuance of shares)
- the absence of debt-related costs.

Figure 7: Corporate structure, Shenghe holding non-controlling equity interest in the project



Source: PEK.

Figure 8: Asset selldown valuation summary: significant value creation

PEK (MSTe Sale of Asset)				Jun-24	
	Discount rate	US\$mn	Risk weighting	AUD\$mn	AUD\$/sh
Ngualla (50.4%)	10.0%	823	80.0%	941	3.56
Total operating assets				941	3.56
Corporate/SG&A				(30)	(0.11)
Land Value Teesside				11	0.04
Net cash/(debt) (\$AUD)				10	0.04
Net Asset Value				932	3.53
Current Share Price					0.195
Upside					1709%

Source: MST estimates.

Key assumptions

We have used a 10% discount rate (real) and assumed zero pre-development capex, on the basis that Shenghe funds the project. We assume that PEK receives 50.4% of the free cash flow, with all other assumptions consistent with the base-case scenario. Importantly, our scenario valuation assumes no dilution.

Positive catalysts for share price and valuation

Sale of Teesside land

The sale of the Teesside (UK) industrial land would provide an immediate boost to cash and allow PEK to be funded through to FID/development of Ngualla.

Other critical minerals development

The discovery of critical minerals phosphate, fluorspar and niobium has greatly enhanced the chance to generate early cash flow for the project by developing these minerals, which would enhance the valuation.

Funding of project

Securing capex for major resource developments is a challenge for small companies; thus, a competitive funding package would significantly de-risk the project.

Asset selldown

Selling a stake in the project to finance its development would mitigate construction risks and minimise dilution. By partnering with an experienced company such as Shenghe, PEK can potentially lower costs and shorten the construction timeline.

Final Investment Decision

FID is the key to project commencement and represents a major milestone. This is now extended to December 2024.

Metallurgical improvements

Advancements in metallurgical efficiencies, whether through enhanced recoveries or superior grades, could significantly boost the project's valuation. Given Shenghe's involvement, such advancements are not only plausible but anticipated, further solidifying the potential for a favourable impact on the share price.

Other potential share price catalysts

Resource growth: Drilling at Ngualla is being undertaken. An increase in the resource would be positive.

NdPr price increase: The valuation is highly sensitive to NdPr prices. Increases in the price of NdPr oxide would positively affect the valuation.

USD depreciation: The valuation is highly sensitive to the USD/AUD. USD depreciation would have a positive effect on the valuation.

Risks to share price and valuation

We outline the key risks to the share price and valuation below, noting that early-stage mining projects have various critical risks.

Company- and project-specific risks

Access to funding: The availability of funding for the project is not guaranteed. A lack of sufficient funding could have a negative impact on the stock.

Delays to development: Any delays in moving into construction, post-funding, would be a negative for the stock and would gradually make the information from the BFS less current and thus less reliable.

Key person dependence: Individuals, including the CEO, may have relationships and experience critical to advancing the project. The loss of such personnel may significantly compromise PEK's ability to advance the project.

Cost inflation: This is a global theme and is particularly concerning in the mining industry. If operational or capital costs increase without a corresponding increase in the commodity price, the project's margins would be reduced, which could impact the economics and viability.

Shenghe funding solution falls through: If Shenghe does not proceed with its potential subscription for a significant non-controlling equity interest in the Ngualla Project, PEK's funding requirements could substantially increase.

Supplying to China: Tensions between China and other countries could lead to trade embargoes or other restrictions, potentially impacting PEK's ability to sell its refined products internationally.

Macro risks

- **Rare earth oxide price** – this is the key valuation sensitivity
- **Foreign exchange rates**
- **Increasing interest rates and the potential impact on the cost of debt finance**

Country-specific risks

The Ngualla Project, operating in Tanzania, may face several country-specific risks.

- **Political instability:** Any changes to government policies or leadership could impact the project, as they could adversely change laws, taxes or other regulations, increasing costs or decreasing revenues.
- **Regulatory environment:** Regulatory or legal changes could adversely impact the project's success.

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.

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The companies and securities mentioned in this report, include:

Peak Rare Earths (PEK.AX) | Price A\$0.19 | Valuation A\$1.28;

Price and valuation as at 24 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: Peak Rare Earths (PEK.AX)

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