Adriatic Metals: A compelling mineral growth story

19/11/2019 | Emanuel Datt, DATT CAPITAL

Adriatic Metals ('ADT') are a base metal developer in Bosnia & Herzegovina (BiH), with a world-class resource in a global scale mineral province.

The breakup of Yugoslavia and the consequent Bosnian war, along with high upfront costs for mining concessions has largely preserved the exploration opportunity in BiH despite a long, proud history of mining. As such, the area has barely been touched by modern exploration techniques which bode well given its geographic and geological locality. The team at ADT recognised the significant opportunity at hand and **managed to secure a portfolio of high-quality assets via its first-mover advantage**; it is still the only listed resource company globally with operations in the BiH.

The BiH is a stable, democratic nation with a favourable regulatory environment and supportive of mining. Foreign investors possess the same rights as locals, tax and royalty rates are very attractive and the costs of operating are extremely low. Serbia, which borders Bosnia, has attracted significant investment from a multitude of mining majors in a similar geological setting. ADT's founders discovered a warehouse of Yugoslav era technical reports dating back 30 years, providing valuable information on historical brownfield projects and exploration activities that allowed it to grasp the low hanging fruit in terms of prospectivity.

Consequently, the company has made **a world-class, poly-metallic greenfield discovery in Rupice (9.4mt @10.1 g/t Au equivalent)** along with significantly advancing a brownfield asset in Veovaca, collectively referred to as the Vares project.

As a result, ADT was the ASX's best performing IPO in 2018. We believe the potential for further quality discoveries is high given the lack of systematic, modern exploration.

ADT has released a very detailed Scoping Study, highlighting the incredible economic potential of the Vares project. Broadly the project economic outcomes have been modelled by the company as follows:

- Process Plant throughput: 800 ktpa
- Initial capital expenditure: USD$178 million
- FID to first production: 13 months
- Payback period: 8 months

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- **Post Tax NPV discounted at 8%: USD$916 million (approx. AUD$1.3 billion)**
- **Post Tax IRR: 107%**

These are world-class metrics by any measure, with an economic capital intensity (initial CAPEX/NPV8) less than half of comparable projects we have examined.

We examined a couple of acquisitions for comparable projects (albeit with inferior economic returns) and noted that:

- S32 acquired Arizona mining at a value approximately 70% of the project's NPV8 - at scoping study stage
- Zijin acquired Nevsun at approximately 90% of NPV8 in neighboring Serbia - at pre-feasibility study stage.
- **ADT is currently trading at approximately 18% of NPV8 - at scoping study stage.**

As such we believe any transaction would need to be priced at a minimum of 60% of NPV8 for the management team (who hold ~30% of the company) to even consider. Large miners like Rio Tinto, Lundin, Freeport McMoran and Zijin are active in neighbouring countries and would find ADT a very attractive acquisition now that there has been demonstrable progress in terms of feasibility studies. There is a profound lack of quality projects available globally and this has driven up acquisition prices substantially over the last 10 years. We also note that base metals are at a cyclical low and ADT's ground is still very much under-explored, which will provide comfort to any potential acquirer.

Looking ahead we see several catalysts on the horizon

- London stock exchange listing - convergence with current valuation differential between Vares and similar projects
- Further potential exploration upside from current and future drilling programs at Vares (4 rigs onsite) - has the potential to further improve project economics
- Exploitation, operating and mining licences - all currently being progressed
- Environmental and planning permits - all currently being progressed
- Further geotechnical, mining, environmental and metallurgy studies leading to the completion of Definite Feasibility Study within 12 months.

Risks we see

- Potential delays in permits and licences - this has been a minor issue in the past but appears to be proceeding more smoothly now.
- Sovereign risk - we consider this to be in line with neighbouring Serbia
- Outcomes from further feasibility studies resulting in marginally higher CAPEX

We believe ADT is a very compelling, well-priced opportunity for the resource investor with material potential upside that may be realised via a takeover from a larger miner or by the company bringing the project into production in its own right.

Disclaimer: Datt Capital holds shares in ADT

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