

20 April 2023

Australia

## EQUITIES

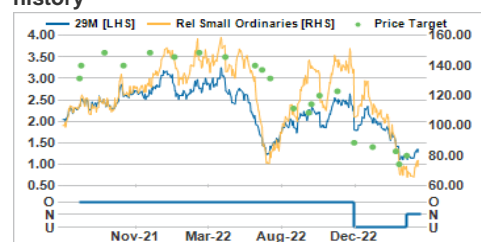
29M AU Neutral  
Price (at 06:31, 20 Apr 2023 GMT) A\$1.20

Valuation	A\$	0.57-1.76
- (50/50 Blend NPV and 5.0x EV/Ebitda)		
12-month target	A\$	1.20
12-month TSR	%	+0.0
Volatility Index		High
GICS sector		Materials
Market cap	A\$m	577
30-day avg turnover	A\$m	2.0
Number shares on issue	m	481.0

### Investment fundamentals

Year end 31 Dec		2022A	2023E	2024E	2025E
Revenue	m	720.7	516.7	696.2	787.5
EBIT	m	-46.8	-206.0	-12.1	58.4
Reported profit	m	-47.4	-160.7	-35.8	9.1
Adjusted profit	m	-47.4	-160.7	-35.8	9.1
Gross cashflow	m	142.0	-22.1	120.9	173.3
CFPS	¢	29.5	-4.3	22.5	32.3
CFPS growth	%	-46.4	nmf	nmf	43.3
PGCFPS	x	4.1	nmf	5.3	3.7
EPS adj	¢	-9.8	-31.5	-6.7	1.7
PER adj	x	nmf	nmf	nmf	70.6
PER rel	x	nmf	nmf	nmf	5.88
Total DPS	¢	2.0	0.0	0.0	0.5
Total div yield	%	1.7	0.0	0.0	0.4
Franking	%	100	nmf	nmf	100
ROA	%	-3.6	-16.0	-1.0	4.6
ROE	%	-6.4	-22.1	-5.0	1.3
EV/EBITDA	x	4.4	-10.2	4.8	3.1
Net debt/equity	%	6.5	26.5	22.7	10.2

### 29M AU rel Small Ordinaries performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, April 2023

(all figures in AUD unless noted)

## 29Metals (29M AU) Phased approach to Capricorn restart

### Key points

- ▶ 29M provided an update for its Capricorn mine restart, indicating production restart during 3QCY23, which was in line with our base case.
- ▶ Capricorn restart has been pushed back from “3-4 months” to a phased approach with Mammoth commencing production in mid-3QCY23.
- ▶ Our base case had previously assumed production restart in 3QCY23, ramping up to full capacity by mid-CY24, which we leave unchanged.

### Event

- 29M has provided a Capricorn Copper update regarding the impact of the March 2023 extreme weather event and recovery plan.

### Impact

- **Impact worse than first thought:** 29M has indicated that it has further assessed damage to Capricorn after the extreme weather event. Water levels have stabilised with an additional 1.5GL of water on site relative to pre-event levels, including an estimated 500ML of water in ESS. Major impact includes:
  - ⇒ Assumed damage to ground support and infrastructure in ESS due to inundation.
  - ⇒ Assumed damage to the WTP used to treat water for use in mineral processing and mining activities with limited, initial inspections indicating that the WTP may be a total loss; probable total loss of the workshop and warehouse including tools, parts and other inventory near the WTP.
  - ⇒ Damage to coarse ore reclaim feeders, water management infrastructure and site civil works.
- **Staged restart:** Previously, 29M indicated that production outage could be “three-to-four months”; however, it now expects a longer and phased recovery to bring Capricorn back online. The staged restart includes an initial restart of Mammoth/Greenstone mine in mid 3QCY23 followed by a restart of ESS in mid 1HCY24. Our base case assumes production restart in 3QCY23 (~100kt) followed by a gradual ramp up to full capacity by 2QCY24 (~425kt). [We leave our assumptions unchanged in anticipation of more updates in mid-May.](#)

### Earnings and target price revision

- No change

### Price catalyst

- 12-month price target: A\$1.20 based on a (50/50 Blend NPV and 5.0 EV/Ebitda) methodology
- Catalyst: March quarter production report on 27 April 2023

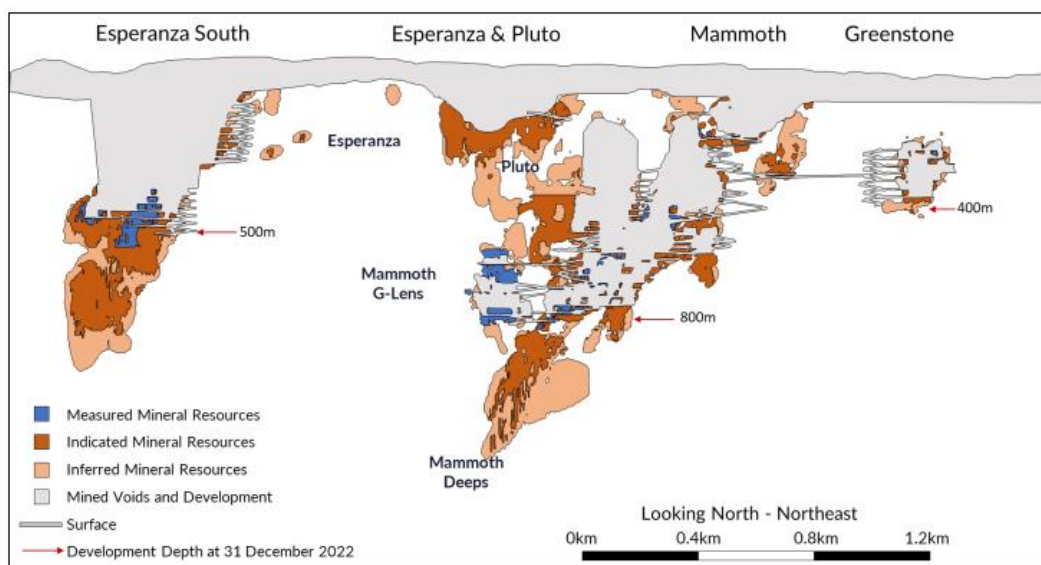
### Action and recommendation

- **Maintain Neutral:** CY23 is likely to be a difficult year for 29M with Capricorn non-operational for a large proportion of the year as the company manages water levels on site back to normalised levels. The full details of the impact to ESS underground and nearby infrastructure won't be known until the company provides an update in mid-May.

### Phased restart at Capricorn

- 29M had previously indicated that production impact could be “three-to-four months”; however, it now expects a phased recovery to bring Capricorn back to production. A further update is expected in mid-May which is expected to include reissued CY23 production guidance.
- The staged restart includes an initial restart with Mammoth/Greenstone mines in mid 3QCY23 followed by a restart of ESS in mid 1HCY24. In a normalised year Mammoth accounts for ~40% of production and is mined using longhole open stoping (LHS) and ESS ~60% of production and is mined using Sublevel caving. In our base case we had assumed a restart of production in 3QCY23 (~100kt) followed by a gradual ramp up to full production by 2QCY24 (~425kt). As of the 31-December-2022 reserve and resource statements, 29M had 0.1Mt at 1.1% Cu and 10.0g/t Au of stockpiles available at its disposal, which could be utilised when the Capricorn mill is restarted.

**Fig 1 Capricorn Long Section: Esperanza South (ESS) and Mammoth/Greenstone**

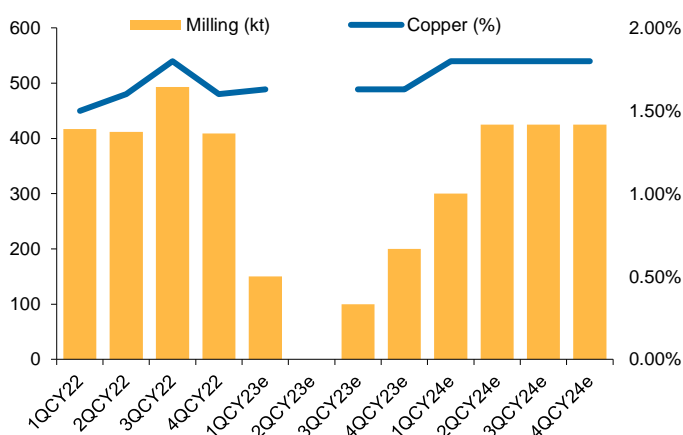


Source: 29M, April 2023

### We had previously assumed a phased restart at Capricorn

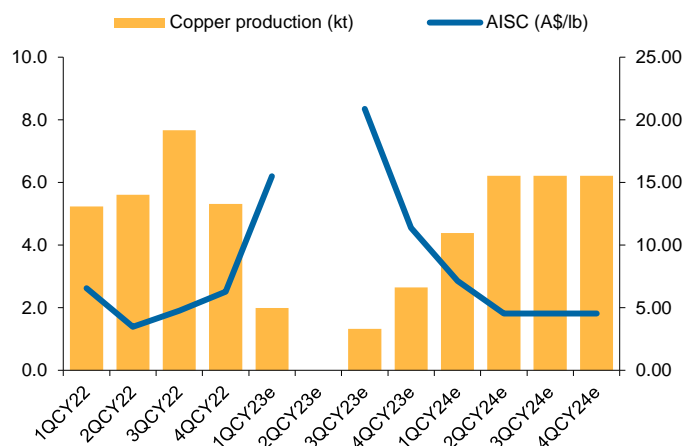
- We had previously assumed a production hiatus at Capricorn, with milling restarting during 3QCY23 with 100kt mined, then ramping back up to full capacity by 2QCY24 with 425kt mined. We make no changes to our ramp up assumptions and wait for further clarity from the company (expected mid-May), which should include the restart schedule and associated costs.

**Fig 2 Capricorn: Milling and Grades (kt, %)**



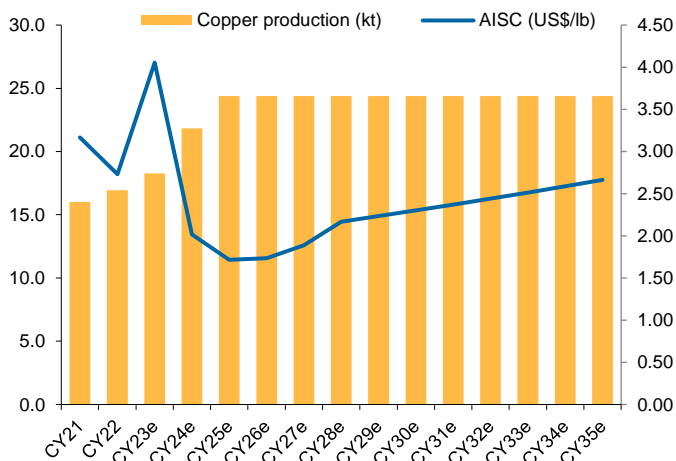
Source: 29M, Macquarie Research, April 2023

**Fig 3 Capricorn: Copper production and AISC (kt, US\$/lb)**



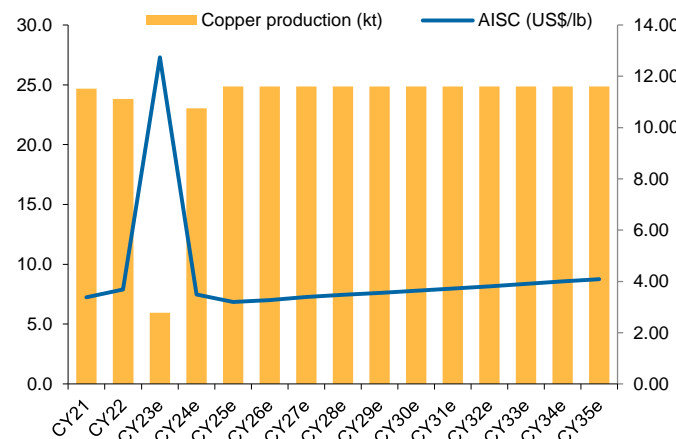
Source: 29M, Macquarie Research, April 2023

**Fig 4 Golden Grove production and costs**



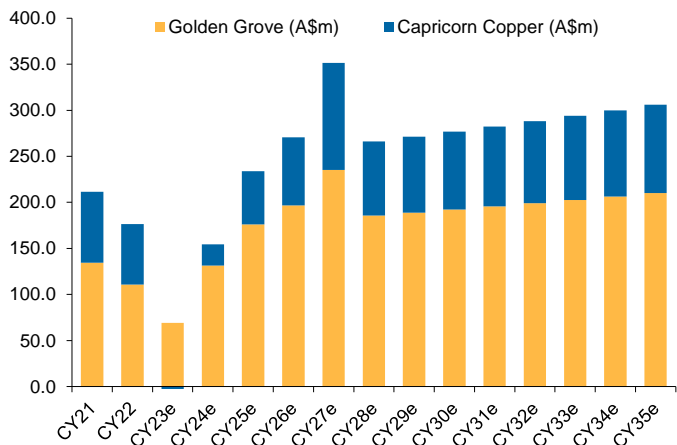
Source: 29M, Macquarie Research, April 2023

**Fig 5 Capricorn Copper production and costs**



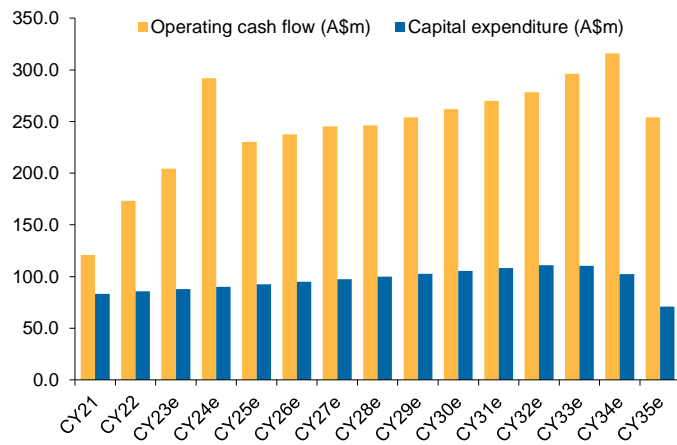
Source: 29M, Macquarie Research, April 2023

**Fig 6 Ebitda breakdown by mine**



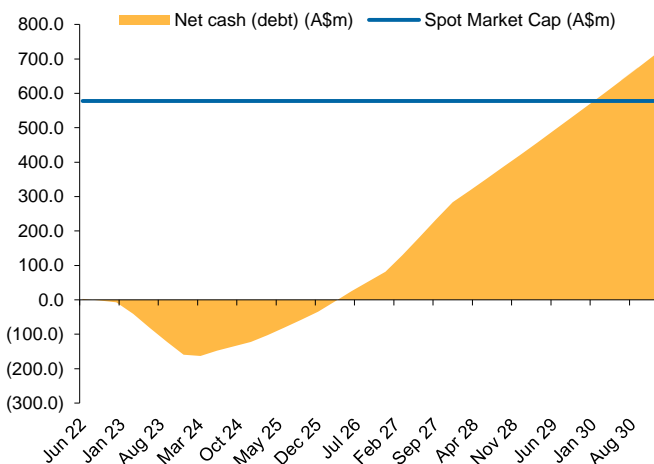
Source: 29M, Macquarie Research, April 2023

**Fig 7 Operating cash flow and capex**



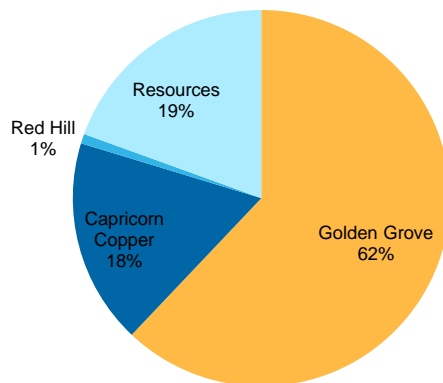
Source: 29M, Macquarie Research, April 2023

**Fig 8 Net cash build vs Market Cap**



Source: 29M, Macquarie Research, April 2023

**Fig 9 NPV breakdown**



Source: 29M, Macquarie Research, April 2023

Fig 10 29Metals summary earnings and valuation

29Metals																
ASX : 29M	Price: (A\$ps)	A\$1.20			Year end: December				Rating: Neutral	Up/dn	TSR					
	Mkt cap: (A\$m)	578			Diluted shares (m)				481.4	Target: A\$1.20	0%	0%				
	Mkt cap: (US\$m)	388														
	EV: (A\$m)	774														
ASSUMPTIONS		CY21	CY22	CY23e	CY24e	CY25e	CY26e	CY27e	COMMODITY PRICES	CY21	CY22	CY23e	CY24e	CY25e	CY26e	CY27e
A\$/US\$	(x)	0.75	0.69	0.68	0.69	0.70	0.70	0.70	<b>Base Metals</b>							
									Copper (US\$/lb)	4.22	4.01	3.95	3.39	3.56	3.86	4.54
									Zinc (US\$/lb)	1.36	1.58	1.32	1.23	1.25	1.27	1.32
									Lead (US\$/lb)	1.00	0.98	0.94	0.86	0.87	0.88	0.95
									Nickel (US\$/lb)	8.37	11.91	9.75	9.07	9.53	9.53	9.98
									Cobalt (US\$/lb)	23.51	28.92	14.33	15.00	18.00	20.00	22.00
									<b>Precious Metals</b>							
									Gold (US\$/oz)	1,800	1,803	1,885	1,775	1,800	1,900	1,800
									Silver (US\$/oz)	25.16	21.81	21.63	20.63	25.50	26.75	25.00
									<b>PRODUCTION</b>	<b>CY21</b>	<b>CY22</b>	<b>CY23e</b>	<b>CY24e</b>	<b>CY25e</b>	<b>CY26e</b>	<b>CY27e</b>
									<b>Golden Grove</b>							
									Copper (kt)	16.0	16.9	18.3	21.8	24.4	24.4	24.4
									Zinc (kt)	47.8	57.6	55.1	60.8	67.4	67.4	67.4
									Lead (kt)	2.4	2.8	2.7	2.7	2.7	2.7	2.7
									Gold (koz)	35.9	26.6	20.6	27.1	27.1	27.1	27.1
									Silver (koz)	1,496	1,331	973	1,264	1,264	1,264	1,264
									<b>Capricorn Copper</b>							
									Copper (kt)	24.7	23.8	6.0	23.0	24.9	24.9	24.9
									Silver (koz)	270	234	60	298	321	321	321
EARNINGS		CY21	CY22	CY23e	CY24e	CY25e	CY26e	CY27e	<b>COPPER EQUIVALENT PRODUCTION (kt)</b>							
Sales Revenue	A\$m	601	721	517	696	788	840	940								
Other Revenue	A\$m	0	0	0	0	0	0	0								
<b>Total Revenue</b>	<b>A\$m</b>	<b>601</b>	<b>721</b>	<b>517</b>	<b>696</b>	<b>788</b>	<b>840</b>	<b>940</b>								
Operating Costs	A\$m	(405)	(544)	(558)	(528)	(540)	(555)	(573)								
<b>Operational EBITDA</b>	<b>A\$m</b>	<b>195</b>	<b>176</b>	<b>(41)</b>	<b>168</b>	<b>248</b>	<b>285</b>	<b>366</b>								
Associate income	A\$m	0	0	0	0	0	0	0								
Corporate & Other Costs	A\$m	(18)	(34)	(26)	(24)	(25)	(29)	(29)								
<b>EBITDA</b>	<b>A\$m</b>	<b>177</b>	<b>143</b>	<b>(67)</b>	<b>145</b>	<b>223</b>	<b>257</b>	<b>337</b>								
D&A	A\$m	(100)	(189)	(139)	(157)	(164)	(168)	(172)								
<b>EBIT</b>	<b>A\$m</b>	<b>77</b>	<b>(47)</b>	<b>(206)</b>	<b>(12)</b>	<b>58</b>	<b>88</b>	<b>165</b>								
Net Interest	A\$m	(15)	(19)	(23)	(28)	(25)	(23)	(5)								
<b>Profit Before Tax</b>	<b>A\$m</b>	<b>62</b>	<b>(66)</b>	<b>(230)</b>	<b>(40)</b>	<b>33</b>	<b>66</b>	<b>160</b>								
Tax Expense	A\$m	103	19	69	4	(24)	(29)	(40)								
Minorities	A\$m	0	0	0	0	0	0	0								
<b>Adjusted NPAT</b>	<b>A\$m</b>	<b>165</b>	<b>(47)</b>	<b>(161)</b>	<b>(36)</b>	<b>9</b>	<b>36</b>	<b>120</b>								
Significant Items (post tax)	A\$m	(44)	0	0	0	0	0	0								
<b>Reported NPAT</b>	<b>A\$m</b>	<b>121</b>	<b>(47)</b>	<b>(161)</b>	<b>(36)</b>	<b>9</b>	<b>36</b>	<b>120</b>								
CASHFLOW		CY21	CY22	CY23e	CY24e	CY25e	CY26e	CY27e	<b>RESERVES AND RESOURCES</b>							
<b>Net Profit</b>	<b>A\$m</b>	<b>121</b>	<b>(47)</b>	<b>(161)</b>	<b>(36)</b>	<b>9</b>	<b>36</b>	<b>120</b>	<b>Reserves</b>							
Interest/Tax/D&A	A\$m	(24)	189	139	157	164	168	172	<b>Project</b>							
Working Capital/other	A\$m	(40)	(89)	0	(0)	(0)	(0)	(0)	Golden Grove							
<b>Net Operating Cashflow</b>	<b>A\$m</b>	<b>58</b>	<b>53</b>	<b>(22)</b>	<b>121</b>	<b>173</b>	<b>204</b>	<b>292</b>	Mt							
Capex	A\$m	(89)	(113)	(119)	(73)	(75)	(77)	(79)	Cu (%)							
Investments	A\$m	5	16	0	0	0	0	0	Au (g/t)							
Sale of PPE and Other	A\$m	0	0	0	0	0	0	0	Zn (%)							
<b>Free cash flow</b>	<b>A\$m</b>	<b>(27)</b>	<b>(44)</b>	<b>(141)</b>	<b>48</b>	<b>98</b>	<b>127</b>	<b>213</b>	Ag (g/t)							
Dividends Paid	A\$m	0	(10)	0	0	(1)	(8)	(23)	Pb (%)							
Debt	A\$m	(108)	(63)	50	(14)	(8)	(7)	(263)	Co (%)							
Equity Issuance	A\$m	228	0	50	0	0	0	0	<b>Resources</b>							
Other	A\$m	0	0	0	0	0	0	0	<b>Project</b>							
<b>Net Financing Cashflow</b>	<b>A\$m</b>	<b>119</b>	<b>(72)</b>	<b>100</b>	<b>(14)</b>	<b>(9)</b>	<b>(15)</b>	<b>(285)</b>	Golden Grove							
<b>Net change in cash</b>	<b>A\$m</b>	<b>92</b>	<b>(116)</b>	<b>(41)</b>	<b>34</b>	<b>89</b>	<b>113</b>	<b>(72)</b>	Mt							
									Cu (%)							
									Au (g/t)							
									Zn (%)							
									Ag (g/t)							
									Pb (%)							
									Co (%)							
									<b>Total</b>							
									Mt							
									Cu (%)							
									Au (g/t)							
									Zn (%)							
									Ag (g/t)							
									Pb (%)							
									Co (%)							
									<b>Total</b>							
									128.0							
									1.75%							
									0.32							
									1.93%							
									19.0							
									0.12%							
									0.02%							
BALANCE SHEET		CY21	CY22	CY23e	CY24e	CY25e	CY26e	CY27e	<b>SUM-OF-THE-PARTS NPV</b>							
Cash	A\$m	197	172	119	143	222	323	240	<b>Projects</b>							
PP&E & Mine Development	A\$m	605	578	564	506	443	379	314	A\$m							
Exploration	A\$m	236	207	202	181	159	136	113	A\$ps							
<b>Total Assets</b>	<b>A\$m</b>	<b>1,315</b>	<b>1,293</b>	<b>1,274</b>	<b>1,263</b>	<b>1,278</b>	<b>1,357</b>	<b>1,210</b>	A\$m							
Debt	A\$m	233	218	316	302	293	287	24	A\$ps							
<b>Total Liabilities</b>	<b>A\$m</b>	<b>546</b>	<b>577</b>	<b>535</b>	<b>564</b>	<b>576</b>	<b>583</b>	<b>346</b>	Macquarie forecasts							
<b>Total Net Assets / Equity</b>	<b>A\$m</b>	<b>770</b>	<b>716</b>	<b>740</b>	<b>699</b>	<b>702</b>	<b>774</b>	<b>864</b>	A\$m							
Net Debt / (Cash)	A\$m	36	46	196	159	72	(37)	(216)	A\$ps							
Gearing (net debt/(nd + equity))	%	4%	6%	21%	19%	9%	(5%)	(33%)	A\$m							
Gearing (net debt/equity)	%	5%	6%	27%	23%	10%	(5%)	(25%)	A\$ps							
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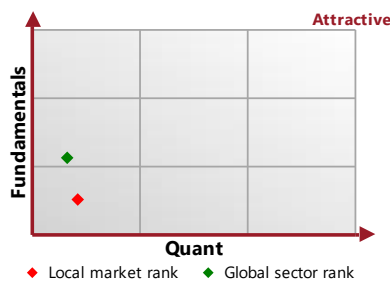
## Macquarie Quant Alpha Model Views

The quant model currently holds a strong negative view on 29Metals. The strongest style exposure is Profitability, indicating this stock is efficiently converting investments to earnings; proxied by ratios like ROE or ROA. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

**599/670**

Global rank in Metals & Mining

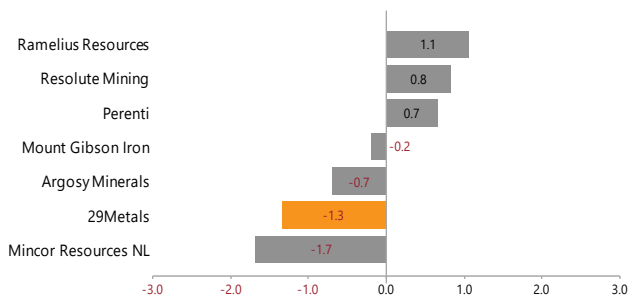
**% of BUY recommendations** 9% (1/11)  
**Number of Price Target downgrades** 1  
**Number of Price Target upgrades** 4



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.  
 Two rankings: Local market (Australia & NZ) and Global sector (Metals & Mining)

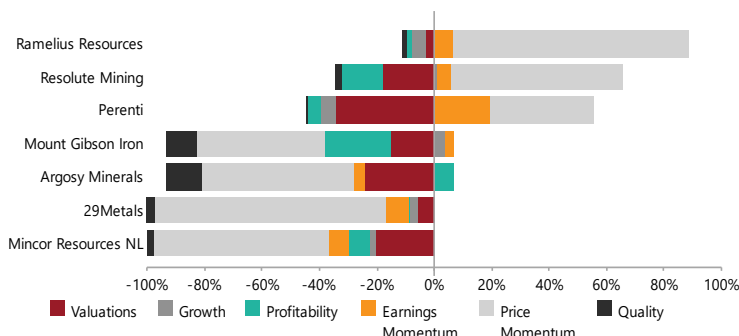
### Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



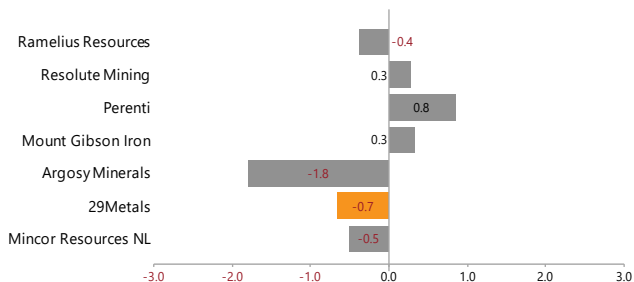
### Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



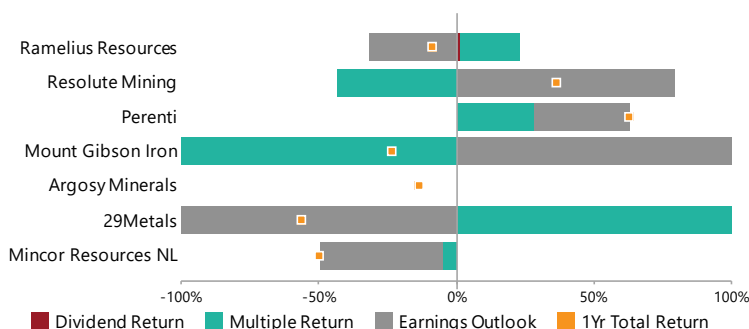
### Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



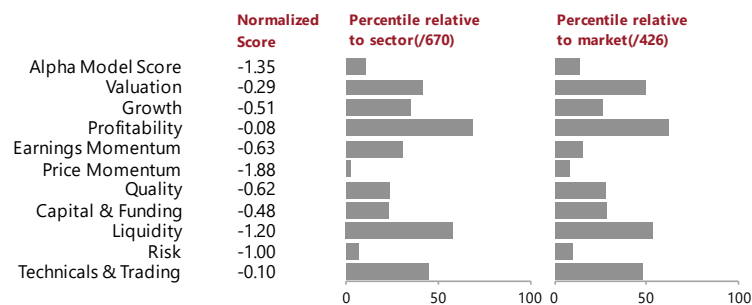
### Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



### How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Quant.

**Important disclosures:****Recommendation definitions****Macquarie – Asia and USA**

Outperform – expected return >10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

**Macquarie – Australia/New Zealand**

Outperform – expected return >10%  
Neutral – expected return from 0% to 10%  
Underperform – expected return <0%

Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to select stocks in Asia/Australia/NZ

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 March 2023**

	AU/NZ	Asia	USA	
Outperform	56.13%	64.77%	64.49%	(for global coverage by Macquarie, 2.51% of stocks followed are investment banking clients)
Neutral	37.74%	23.98%	32.71%	(for global coverage by Macquarie, 1.83% of stocks followed are investment banking clients)
Underperform	6.13%	11.26%	2.80%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

**29M AU vs Small Ordinaries, & rec history**

(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.  
Source: FactSet, Macquarie Research, April 2023

**12-month target price methodology**

29M AU: A\$1.20 based on a (50/50 Blend NPV and 5.0 EV/Ebitda) methodology

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Date	Stock Code (BBG code)	Recommendation	Target Price
29-Mar-2023	29M AU	Neutral	A\$1.20
15-Mar-2023	29M AU	Underperform	A\$1.00
09-Mar-2023	29M AU	Underperform	A\$1.30
25-Jan-2023	29M AU	Underperform	A\$1.40
22-Dec-2022	29M AU	Underperform	A\$1.50
21-Nov-2022	29M AU	Outperform	A\$2.70
19-Oct-2022	29M AU	Outperform	A\$2.60
04-Oct-2022	29M AU	Outperform	A\$2.40
29-Sep-2022	29M AU	Outperform	A\$2.20
01-Sep-2022	29M AU	Outperform	A\$2.30
20-Jul-2022	29M AU	Outperform	A\$3.00
05-Jul-2022	29M AU	Outperform	A\$3.20
22-Jun-2022	29M AU	Outperform	A\$3.30
28-Apr-2022	29M AU	Outperform	A\$3.50
11-Mar-2022	29M AU	Outperform	A\$3.60
24-Jan-2022	29M AU	Outperform	A\$3.50
10-Dec-2021	29M AU	Outperform	A\$3.60

22-Oct-2021	29M AU	Outperform	A\$3.30
17-Sep-2021	29M AU	Outperform	A\$3.60
05-Aug-2021	29M AU	Outperform	A\$3.30
02-Aug-2021	29M AU	Outperform	A\$3.00

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