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Breaker Resources NL (BRB)

Lithium dealt

Recommendation
Buy (unchanged)
Price
\$0.285
Valuation
\$0.56 (unchanged)
Risk
Speculative

GICS Sector

Materials

Expected Return

Capital growth	96.5%
Dividend yield	0.0%
Total expected return	96.5%

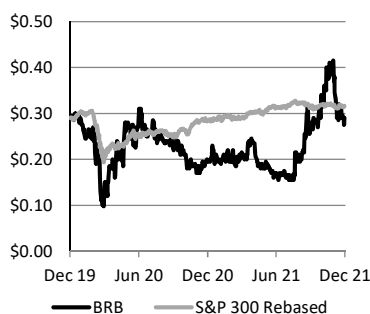
Company Data & Ratios

Enterprise value	\$81.3m
Market cap	\$92.9m
Issued capital	325.8m
Free float	93%
Avg. daily val. (52wk)	\$253,000
12 month price range	\$0.15-\$0.44

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.41	0.32	0.20
Absolute (%)	-29.3	-7.9	48.7
Rel market (%)	-28.9	-6.7	39.3

Absolute Price



SOURCE: IRESS

Deal on Manna: 80% for up to \$33m

BRB has announced the divestment of up to an 80% interest in lithium rights at its Manna Lithium discovery to Global Lithium Resources Ltd (GL1, not rated). Under the terms of the transaction, GL1 can earn up to 80% of the lithium rights over a 50km² area of the Lake Roe Gold Project for staged consideration payments of up to \$33m as follows: \$13m upfront payment of \$6.5m in cash and \$6.5m in GL1 shares; \$10m payment on the definition of a Mineral Resource containing more than 250kt of contained Li₂O; and \$10m upon the production of 100kt of contained Li₂O. GL1 must fund all exploration and technical studies to completion of a definitive, bankable feasibility study (DFS) within five years. If Global Lithium fails to achieve this outcome, its equity will revert to a 50% joint venture arrangement. BRB will retain at least a 20% free-carried equity interest in the Manna Lithium Project to DFS stage.

Divestment supports gold exploration focus

The announcement of this deal sends a very clear signal that BRB's priority is on further Resource definition and expansion at its 100%-owned Lake Roe Gold Project. The deal also defers any near-term requirement for an equity raising. The injection of \$6.5m cash provides the opportunity for BRB to add further value by growing and de-risking Lake Roe before the next raise, which we now anticipate to be pushed back into late CY22, or possibly later depending on GL1's progress at Manna.

Value add opportunity missed?

As it happens, the deal values the Manna lithium prospect almost in-line with our notional exploration valuation, so at first pass looks fair. However, our valuation for Manna was heavily risk adjusted, reflecting its pre-Resource status. This may be a missed opportunity for BRB, in that the estimation of a maiden Resource at Manna had the potential to be a major de-risking event. The corollary of this may have been a materially higher valuation for the sale of a strategic interest in Manna and, potentially, more competition for it. In considering the triggering of the second staged payment of \$10m, which will be due to BRB upon definition of a Resource containing >250kt Li₂O, we estimate the valuation of such a Resource may be ~\$400m, based on current market metrics. While GL1 will still have to fund ongoing exploration and feasibility studies to complete its 80% earn-in, we have to question whether BRB is receiving adequate value for the Resource potential of the Manna lithium prospect.

Investment thesis – Speculative Buy, Valuation \$0.56/sh

The net impact is that our overall valuation for BRB is unchanged on this update. We lower BRB's attributable valuation for Manna, largely offset by the cash and scrip consideration and reduced equity dilution. BRB is well funded to maintain significant exploration programs at Lake Roe, an asset that is undervalued relative to the market and located in a setting that is the subject of increasing corporate competition. We retain our Speculative Buy recommendation.

Solid resource update for Lake Roe

Deal on Manna: 80% for up to \$33m

BRB has announced the divestment of up to an 80% interest in lithium rights at its Manna Lithium discovery to Global Lithium Resources Ltd (GL1, not rated). Under the terms of the transaction, GL1 can earn up to 80% of the rights to lithium and lithium-related minerals over a 50km² area of the Lake Roe Gold Project for staged consideration payments of up to \$33m as follows:

- \$13m upfront payment comprising \$6.5m in cash and \$6.5m GL1 shares, payable by 31 December 2021, to secure the rights;
- \$10m on the definition of a Mineral Resource containing more than 250,000 tonnes of contained Li₂O (equivalent to 20Mt @ 1.25% Li₂O, for example); and
- \$10m upon the production of 100,000t of contained Li₂O, (equivalent to approximately 1.67Mt @ 6% spodumene concentrate for example).

GL1 must also fund all exploration and technical studies to completion of a definitive, bankable feasibility study (DFS) within five years. If Global Lithium fails to achieve this outcome, its equity will revert to a 50% joint venture arrangement. BRB will retain at least a 20% free-carried equity interest in the Manna Lithium Project to DFS stage.

Deal supports gold exploration focus, defers equity raise

The announcement of this deal sends a very clear signal that BRB's priority is on further Resource definition and expansion at its 100%-owned Lake Roe Gold Project. From a strategic perspective, we view this as a positive as it removes any ambiguity around the diversion of management resources. The deal also defers any near-term requirement for an equity raising. The injection of \$6.5m cash provides the opportunity for BRB to add further value by growing and de-risking Lake Roe before the next raise, which we now anticipate to be pushed back into late CY22, or possibly later depending on GL1's progress at Manna. This also is a positive, in our view. We are, however surprised at the timing of this deal, which has come earlier than we expected.

Value add opportunity missed?

As it happens, the deal values the Manna lithium prospect almost in-line with our notional exploration valuation for it, so at first pass looks fair. However, our valuation for Manna was heavily risk adjusted, reflecting its pre-Resource status. This may represent a missed opportunity for BRB, in that the estimation of a maiden Resource Estimate at Manna had the potential to be a major de-risking event. The corollary of this may have been a materially higher valuation being realised for the sale of a strategic interest in Manna and, potentially, more competition to acquire it.

In estimating our notional exploration valuation for the Manna lithium prospect, we had referenced lithium sector valuation metrics, including Enterprise Value per tonne of Lithium Carbonate Equivalent (LCE) contained in Resource (EV\$/t LCE). We most recently measured this metric in the market at A\$650/t for ASX-listed lithium development and production companies, adapted from our "Eye on Lithium" sector report.

Comparing this market metric with the consideration being received by BRB and the value of a Resource of the scale that would trigger the second staged cash payment shows a material disconnect. We can only estimate the cost of drilling out this Resource, but given it is near surface and could be achieved in the lower confidence Inferred category, we expect it would be less than \$5-10m.

The comparison table below shows a range of valuation metrics for ASX-listed lithium companies, including EV\$/t LCE in Resource.

Table 1 - Resource, Reserve & production comparisons

Name (ASX code)	EV (\$m)	Total LCE Resource (Mt)	Total LCE Reserve (Mt)	EV /Resource (\$/t)	EV /Reserve (\$/t)	Expected annual LCE production* (kt)	EV to production (\$/t)
Pilbara Minerals (PLS)	8,365	8.2	4.7	1,025	1,780	75	111
Orocobre (ORE)	5,649	18.5	2.7	305	2,097	113	50
Liontown Resources (LTR)	2,879	5.8	2.5	500	1,174	52	56
AVZ Minerals (AVZ)	2,347	8.3	2.7	281	870	53	44
Ioneer (INR)	1,437	0.6	0.3	2,300	4,956	10	148
Vulcan Energy Resources (VUL)	1,244	14.0	1.1	89	1,111	35	35
Lake Resources (LKE)	1,034	3.3	0.0	313	na	19	54
Sayona Mining (SYA)	824	1.8	0.4	447	2,293	24	34
Core Lithium (CXO)	742	0.5	0.2	1,550	3,063	29	25
Argosy Minerals (AGY)	313	0.2	0.0	1,418	na	11	29
Piedmont Lithium (PLL)	205	1.7	0.6	122	334	35	6
Lithium Power International (LPI)	126	1.5	0.4	85	331	10	12
Jindalee Resources (JRL)	103	10.1	0.0	10	na	na	na
Mean				650	1,801		50
Median				313	1,477		40

SOURCE: COMPANY DATA, IRESS, BELL POTTER SECURITIES ESTIMATES AS AT 23/12/21
NOTE: * EXPECTED PRODUCTION FROM EXISTING OPERATIONS AND/OR PROJECTS BEING DEVELOPED

Note: Lithium carbonate equivalent (LCE) is the common unit of measurement used when comparing hard rock and brine lithium Resources, Reserves and production. LCE adjusts non-lithium carbonate figures to the equivalent lithium carbonate tonnes required to generate the same amount of lithium metal.

In considering the triggering of the second staged payment of \$10m, which will be due to BRB upon definition of a Resource containing >250kt Li₂O (equivalent to ~620kt LCE), we estimate the valuation of such a Resource may be ~\$400m, based on current market metrics of A\$650/t. While GL1 will still have to fund ongoing exploration and feasibility studies to complete its 80% earn-in, we have to question whether BRB is receiving adequate value for the Resource potential of the Manna lithium prospect.

Changes to our valuation

We make a number of changes to our valuation for BRB on announcement of this transaction, including:

- Updating our estimate of BRB's cash position to reflect the first staged payment of \$6.5m. We also include the of 10.3m GL1 shares issued to BRB as part of the first staged payment, which have a current market value of \$7.5m;
- Lowering our standard equity raising assumption, reflecting BRB's strengthened balance sheet;
- Revising our exploration valuation for BRB's interest in the Manna lithium prospect. We now attribute an implied valuation for Manna of \$41.3m, directly reflecting the deal metrics of \$33m for an 80% interest. While the earn-in milestones are not specifically disclosed, it appears that the execution of the deal will result in GL1 retaining at least a 50% interest in Manna. Thus, we reduce BRB's interest to 50%.

Our valuation for Manna is effectively unchanged but we lower BRB's attributable interest to 50%. This reduction is largely offset by the cash and scrip consideration received. We also reduce our assumed equity raise, reducing its dilutive effect on our equity valuation. The net impact is that our overall valuation for BRB is unchanged on this update, at \$0.56/sh.

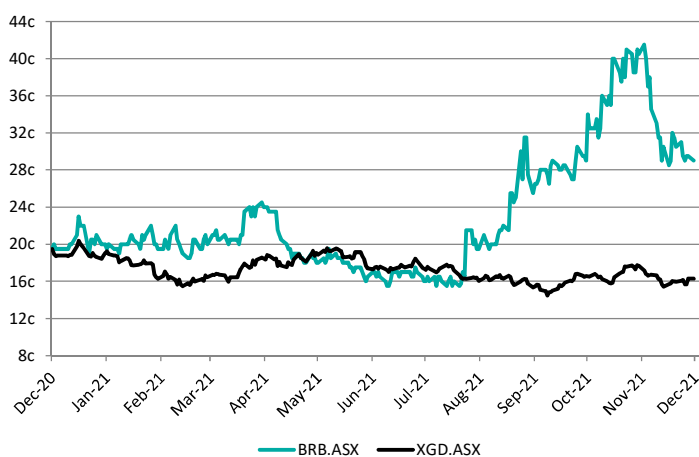
Upcoming catalysts

Key upcoming catalysts for BRB include:

- Ongoing Resource drilling and project development updates for the Lake Roe Gold Project;
- Potential corporate activity related to the Lake Roe gold project; and
- The advancement of the Manna lithium prospect under GL1's management and the achievement of development milestones triggering valuation uplift and staged payments to BRB.

Share price performance vs ASX Gold Index (XGD)

Figure 1 – BRB relative price performance vs XGD



SOURCE: IRESS AND BELL POTTER SECURITIES CALCULATIONS

Breaker Resources NL (BRB)

Company description

Breaker Resources NL (BRB) is an Australian domiciled, Perth based gold exploration company, with the objective of applying modern, systematic exploration techniques to the largely under-explored Eastern Goldfields Superterrane (EGST) of Western Australia.

BRB's flagship asset and prime focus is its 100% owned Lake Roe Gold Project located 100km east of Kalgoorlie, 60km south-southeast of the operating 3.5Moz Carosue Dam gold mine, and 35km north of the operating 0.9Moz Karonie gold mine. The project comprises a tenement package with an overall area of 556km². A Mineral Resource Estimate of 31.9Mt at 1.6g/t Au for 1.68Moz Au contained was released in December 2021.

Investment thesis – Speculative Buy, Valuation \$0.56/sh

The net impact is that our overall valuation for BRB is unchanged on this update. We lower BRB's attributable valuation for Manna, largely offset by the cash and scrip consideration and reduced equity dilution. BRB is well funded to maintain significant exploration programs at Lake Roe, an asset that is undervalued relative to the market and located in a setting that is the subject of increasing corporate competition. We retain our Speculative Buy recommendation.

Valuation methodology

BRB is a gold exploration company whose main asset is its 100% owned Lake Roe Gold Project. This project has a Resource of 31.9Mt at 1.6g/t Au for 1.68Moz Au contained. Our valuation methodology applies a market-based Enterprise Value per Resource ounce (EV/oz) metric which we use as a basis to value BRB's existing Resource base. This is incorporated with a DCF valuation of corporate overheads, BRB's last reported net cash position, capital structure and notional exploration valuation for other assets. We also make an allowance for an equity raising within the next 12 months, consistent with our valuation methodology for exploration companies. Our sum-of-the-parts equity valuation is summarised below:

Table 2 - BRB valuation summary

Ordinary shares (m)		325.8
Options outstanding (m)		20.2
Assumed equity raise (m)		30.8
Diluted m		376.8
Sum-of-the-parts	\$m	\$/sh
Gold exploration	160.0	0.49
Other exploration	20.6	0.06
Corporate overheads	(3.4)	(0.01)
Subtotal (EV)	177.2	0.54
Net cash (debt)	11.6	0.04
Equity investments	7.5	0.02
Total (undiluted)	196.4	0.60
Cash from options	7.2	@ 0.36
Assumed equity raise	8.0	@ 0.26
Total (fully diluted)	211.6	0.56

SOURCE: BELL POTTER SECURITIES ESTIMATES

With upside of 96.5% from the last closing share price, we retain our Speculative Buy recommendation.

Capital structure

BRB's latest capital structure is summarised below:

Table 3 - BRB capital structure summary

Shares on issue	m	325.8
Performance shares / other	m	0.0
Total shares on issue	m	325.8
Share price	\$/sh	0.285
Market capitalisation	\$m	92.9
Net cash	\$m	11.6
Enterprise value (undiluted)	\$m	81.3
Options outstanding (m)	m (wtd avg ex. price \$0.36 per share)	20.2
Options (in the money)	m	8.2
Issued shares (diluted for itm options)	m	334.1
Market capitalisation (diluted)	m	95.2
Net cash + options	\$m	13.6
Enterprise value (diluted)	\$m	81.6

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Top shareholders

BRB's largest shareholder is the Electrum Strategic Opportunities Fund (10.7%) and Paulson & Co. (10.0%). Electrum came onto the register via placements in November 2019 and July 2020. Paulson & Co. came onto the register via the July 2020 placement. Managing Director, Tom Sanders holds 7.3%.

Table 4 - BRB top shareholders

Shareholder	%	m
Electrum Strategic Opportunities	10.7%	34.7
Paulson&Co	10.0%	32.6
TS&H Sanders	7.3%	23.9
Franklin Resources	6.4%	20.8

SOURCE: IRESS, COMPANY REPORTS

Resource sector risks

Risks to BRB include, but are not limited to:

- **Operating and development risks:** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks due to the inherent hazards of the operating environment and the human resource intensity of the activities undertaken.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Operating and capital cost fluctuations:** The cost and availability of exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations:** The future earnings and valuations of exploration, development and producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Funding and capital management risks:** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating.
- **Corporate/M&A risks:** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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