

Analyst

David Coates 612 8224 2887

Authorisation

Peter Arden 613 9235 1833

Aeon Metals Ltd (AML)

Key milestones coming

Recommendation

Buy (unchanged)

Price

\$0.09

Valuation

\$0.60 (previously \$0.64)

Risk

Speculative

GICS Sector

Materials

Expected Return

Capital growth	566.7%
Dividend yield	0.0%
Total expected return	566.7%

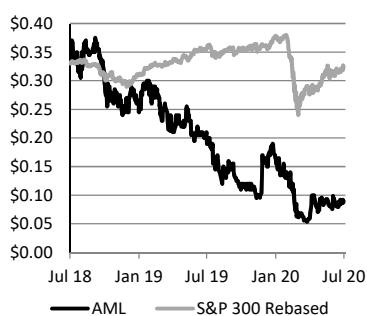
Company Data & Ratios

Enterprise value	\$73.7m
Market cap	\$61.0m
Issued capital	677.6m
Free float	55%
Avg. daily val. (52wk)	\$63,000
12 month price range	\$0.054-\$0.21

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.08	0.05	0.21
Absolute (%)	12.5	66.7	-56.1
Rel market (%)	10.2	54.2	-47.6

Absolute Price



SOURCE: IRESS

PFS pending

AML is continuing to complete optimisation work across a number of workstreams for the Walford Creek Pre-Feasibility Study (PFS). The completion date for the PFS has been pushed back by one quarter, to Q3CY20, due to the impact of COVID-19 related operating restrictions on several aspects of the study. AML has, however, been able to provide some updates on the optimisation of key workstreams, including the mine plan and the process route. Pushing back the underground capital investment may lower AML's peak capital drawdown and improve the NPV. Improved metallurgical recoveries and a simplified product suite should also add value and lower the technical risk. The PFS will also include a maiden Ore Reserve for Walford Creek. Optimisation of the mining method, mining schedule and process route will all contribute to maximising Resource to Reserve conversion. These will be major milestones for the project and should be key positive catalysts for AML.

Funding and Board update

In order to fund AML through to the completion of the PFS, a A\$4m increase to the existing secured loan facility with OCP Asia was negotiated, from \$13.7m to \$17.7m. The maturity date on the loan was also extended from December 2020 to December 2021. We also highlight the recent appointment of new Independent Director, Andrew Greville to AML's Board, which we view as positive on a number of fronts. In particular, his experience managing zinc, copper and lead concentrate sales into Asian markets is very relevant to the future marketing AML's concentrate products.

Investment thesis – Speculative Buy, valuation \$0.60/sh

The completion of the PFS and the calculation of a maiden Ore Reserve should be key positive catalysts for AML. This should re-focus the market's attention on the only advanced copper-cobalt asset in Australia. With AML combining two key input commodities for renewable energy generation and Electric Vehicles in a Tier 1 mining jurisdiction offering security of tenure and ethical supply, we view the risk-reward balance as compelling. Our valuation drops 6% to \$0.60. Speculative Buy retained.

Earnings Forecast

Year end 30 June	2019a	2020e	2021e	2022e
Sales (A\$m)	-	-	-	215
EBITDA (A\$m)	(4)	(2)	(2)	91
NPAT (reported) (A\$m)	(4)	(3)	(2)	39
NPAT (adjusted) (A\$m)	(4)	(3)	(2)	39
EPS (adjusted) (cps)	(1)	(0)	(0)	5
EPS growth (%)	na	na	na	na
PER (x)	(13.7)	(19.0)	(33.4)	1.7
FCF Yield (%)	-25%	-7%	-106%	-254%
EV/EBITDA (x)	(17.9)	(38.8)	(49.1)	0.8
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-6%	-5%	-3%	43%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Key milestones coming

PFS, maiden Ore Reserve pending

AML is continuing to complete optimisation work across a number of workstreams for the Walford Creek Pre-Feasibility Study (PFS). The completion date for the PFS has been pushed back by one quarter, to Q3CY20, due to the impact of COVID-19 related operating restrictions on finalising several aspects of the study.

AML has, however, been able to provide some updates on the optimisation of key workstreams, including the mine plan and the process route. On the mining front, the open-pit mine life has been accelerated and is now scheduled to be complete in 8 years. This places less demand on underground development and ore production, enabling it to be pushed back from commencing in year 2 to commencing in year 4 and with a less aggressive ramp-up. Metallurgical testwork indicates overall copper recoveries of 95%, including 87% to the copper concentrate (previously 80%), which we view as a positive due to greater value being captured in the project's key product. We also note positive developments on both cobalt and nickel recoveries.

It is too early to incorporate these updates into our modelling of Walford Creek but, all-else being equal, we would expect these changes to be accretive to the project's valuation. Pushing back the underground capital investment may lower AML's peak capital drawdown and improve the NPV. Improved metallurgical recoveries and a simplified product suite should also add value and lower technical risk.

Maiden Ore Reserve

The PFS will also include a maiden Ore Reserve for Walford Creek. Based on the most recent Resource (December 2019) which, on a consolidated basis, grew to +300kt of contained copper, 50kt of contained cobalt plus lead, zinc and silver. Of this, 95% of the Copper Mineral Resource and 85% of the total consolidated Resource is in the Measured and Indicated categories, thus available for conversion to Reserves. Optimisation of the mining method, mining schedule and process route will all contribute to maximising Resource to Reserve conversion for the PFS.

The completion of the PFS and the calculation of a maiden Ore Reserve will be major milestones for the project and should be key positive catalysts for AML. In our view, this will re-focus the market's attention on one of the most advanced greenfield copper developments globally and the only copper-cobalt asset in Australia. This is an attractive combination of two key input commodities for renewable energy generation and Electric Vehicle batteries in a Tier 1 mining jurisdiction able to provide security of tenure and ethical supply.

Funding and OCP update

In order to fund AML through to the completion of the PFS, a A\$4m increase to the existing secured loan facility with OCP Asia was negotiated, from A\$13.7m to A\$17.7m. The maturity date on the loan was also extended from December 2020 to December 2021. In consideration for the extension, AML will pay a capitalised cash fee equivalent to 3% of total OCP Facility size. The facility carries an interest rate of 12% p.a, calculated and payable quarterly in arrears. The interest payments may be capitalised at Aeon's election with no penalties for early repayment.

OCP has also continued to purchase shares in AML on-market over the last three months, lifting its shareholding from 43.4% in April 2020 to 44.7% as at 8 July 2020. This clearly puts OCP in the box seat for any corporate interest and, as a hedge fund, we doubt they are buying without an exit strategy in mind.

Independent Director Appointment – Andrew Greville

We also highlight the recent appointment of a new Independent Director to AML's Board, which we view as positive on a number of fronts. Mr Greville is a senior international mining executive with over 36 years' experience with particular expertise in the fields of business development, mergers and acquisitions, product marketing and strategy.

His experience in product marketing, including 5 years as Pechiney SA's Vice President, Ores and Concentrates, a role which included the management of zinc, copper and lead concentrate sales into China, Korea and Japan, is very relevant to the future marketing AML's concentrate products into those markets. We also view his four years as Executive General Manager, Business Development and Strategy at Xstrata Copper, where he was responsible for optimising Xstrata Copper's asset portfolio, as relevant to AML's strategic direction. Finally, it is also a positive for the independence of AML's Board.

Changes to our valuation

We make no fundamental changes to our valuation for AML. Our production, cost and other key operational assumptions remain unchanged. We do however update for the latest capital structure which includes the increased debt facility drawdown and minor additional shares. We also update for our latest commodity price and exchange rate assumptions, which includes a marginally lower copper price forecast, offset by a lower AUD:USD exchange rate.

The biggest impact to our valuation is the update to our standard assumption for exploration companies of an equity raise within the next 12 months, in this case \$6.0m at \$0.085/sh (~5% discount to the last closing price). Due to the low share price, this results in dilution of ~10%.

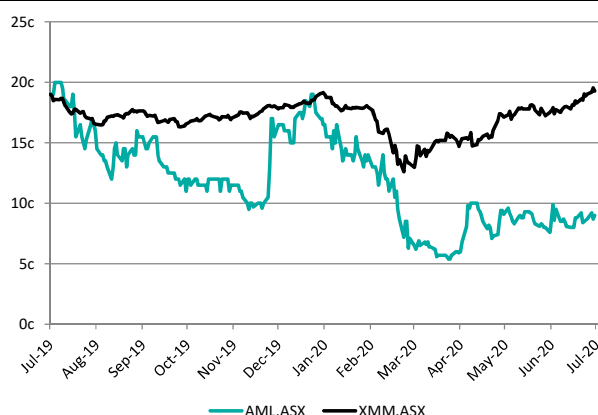
The net impact is a 6% reduction in our valuation, from \$0.64/sh to \$0.60/sh. With upside of 567% from the last closing price, we retain our Speculative Buy recommendation.

Upcoming catalysts

Key upcoming catalysts for AML include:

- Further updates from the ongoing workstreams (including operational optimisations and environmental baseline studies) that will form the basis of a PFS, now targeted for completion in Q3CY20; and
- Updates on potential funding options being considered by AML, including debt and equity finance, metal streaming deals and strategic equity deals at the project and company levels.

Figure 1 - AML share-price performance vs ASX Metals and Mining (re-based)



SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

Aeon Metals Ltd (AML)

Company description

AML is focused on the exploration and development of its flagship asset, the 100%-owned Walford Creek Copper-Cobalt Project, an advanced exploration stage project located approximately 350km north west of Mt Isa, in Queensland. Since acquiring the project in 2014, AML has completed Resource infill and extension drilling, released updated Mineral Resource estimates, progressed permitting activities and completed initial project evaluations. In mid-2017 a new understanding of the deposit resulted in the development of a geological model which was subsequently used to target high grade extensions of the Vardy Zone. Drilling programs over the course of 2018 and 2019 have now defined a Copper Lode Resource of 18.4Mt @ 1.05%Cu + 0.14%Co + 29g/tAg + 0.90%Pb + 0.72%Zn, containing 194kt copper and 26kt cobalt, plus lead, zinc and silver. It also defined a Cobalt Peripheral Resource of 17.4Mt @ 0.26%Cu + 0.09%Co + 20g/tAg + 0.80%Pb + 1.01%Zn, containing 45kt copper and 16kt cobalt, plus lead, zinc and silver. The updated Amy Copper Mineral Resource stands at 5.1Mt @ 1.25%Cu + 0.14%Co + 37g/tAg + 1.35%Pb + 0.63%Zn, containing 32kt copper and 21kt cobalt, plus lead, zinc and silver. These Resources will form the basis of a PFS to be released in 3QCY20.

Investment thesis – Speculative Buy, valuation \$0.60/sh

The completion of the PFS and the calculation of a maiden Ore Reserve should be key positive catalysts for AML. This should re-focus the market's attention on the only advanced copper-cobalt asset in Australia. With AML combining two key input commodities for renewable energy generation and Electric Vehicles in a Tier 1 mining jurisdiction offering security of tenure and ethical supply, we view the risk-reward balance as compelling. Our valuation is lowered 6% to \$0.60. Speculative Buy retained.

Valuation – risked discounted cash flow of key project

Our valuation for AML is based on the October 2019 Scoping Study which outlines a scenario for the open-pit and underground mining of the Walford Creek project. This assumes a Mining Inventory of 35.5Mt @ 0.45% Cu, 0.78% Pb, 0.88% Zn, 24g/t Ag and 852ppm Co being mined and processed at a combined rate of 3.5Mtpa over an 11-year mine-life. Processing via a 2.0Mtpa concentrator and 1.5Mtpa heap leach is planned to produce 145.8kt Cu and 22.5kt Co over the lom, plus zinc, lead nickel and silver. We also include an exploration valuation of \$150m to reflect Resource upside and the prospectivity of the 20km strike length of the Fish River Fault across AML's tenements.

Resource sector risks

Risks to AML include, but are not limited to:

- **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. As an exploration company with no sales revenues, AML is reliant on access to equity markets and debt financing to fund the advancement and development of its projects.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company may relate to geological, mining and metallurgical performance vs design. These can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Construction and development of mining assets may be subject to approvals timelines, receipt of permits, weather events, access to skilled labour and technical personnel, as well as key material inputs and mechanical components which may cause delays to construction, commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for 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 operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates. As most metal prices are denominated in US dollars, their translation into Australian dollars are affected by fluctuations in the value of the Australian dollar. Commodity price and foreign exchange rate outcomes may be different from our forecasts.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives. Exploration success is dependent upon a wide range of factors and can deliver a wide range of results. Even once Reserves have been calculated, their economic viability remains dependent upon actual commodity prices and inputs to operating costs.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. AML's key assets are located in Australia, in the State of Queensland, a politically and socially stable jurisdiction, however changes to business conditions and government policies can and have occurred, with potential for adverse impacts on the economic and social viability of AML's operations.
- **Corporate/M&A risks.** Risks associated with M&A activity include differences between the entity's and the market's perception of value associated with completed transactions, the actual performance of an acquired asset vs its expected performance as assessed by the acquiror and the timing of an acquisition may all have a material impact on the value attributed by the market to that acquisition.

Table 1 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS							
Year ending June	Unit	2018a	2019a	2020e	2021e	2022e	Year ending June	Unit	2018a	2019a	2020e	2021e	2022e
Revenue	\$m	-	-	-	-	214.8	VALUATION						
Expense	\$m	(14.1)	(4.1)	(1.9)	(1.5)	(124.2)	NPAT	\$m	(14)	(4)	(3)	(2)	39
EBITDA	\$m	(14.1)	(4.1)	(1.9)	(1.5)	90.6	Reported EPS	c/sh	(3)	(1)	(0)	(0)	5
Depreciation	\$m	-	-	(0.0)	(0.0)	(42.9)	EPS growth	%	na	na	na	na	na
EBIT	\$m	(14.1)	(4.1)	(1.9)	(1.5)	47.6	PER	x	-3.2x	-13.7x	-19.0x	-33.4x	1.7x
Net interest expense	\$m	0.2	0.1	(1.4)	(0.4)	(9.1)	DPS	c/sh	-	-	-	-	-
PBT	\$m	(13.9)	(4.0)	(3.3)	(2.0)	38.6	Franking	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	-	Yield	%	0%	0%	0%	0%	0%
NPAT	\$m	(13.9)	(4.0)	(3.3)	(2.0)	38.6	FCF/share	c/sh	(2)	(2)	(1)	(10)	(23)
							P/FCFPS	x	-5.9x	-4.0x	-14.1x	-0.9x	-0.4x
							EV/EBITDA	x	-5.2x	-17.9x	-38.8x	-49.1x	0.8x
							EBITDA margin	%	nm	nm	nm	nm	42%
							EBIT margin	%	nm	nm	nm	nm	22%
							Return on assets	%	-21%	-5%	-4%	-1%	11%
							Return on equity	%	-33%	-6%	-5%	-3%	43%
							LIQUIDITY & LEVERAGE						
							Net debt (cash)	\$m	2	6	3	72	238
							ND / E	%	3%	9%	4%	102%	218%
							ND / (ND + E)	%	3%	8%	4%	51%	69%
							EBITDA / Interest	x	-	-	-	-	-10.0x
							MINERAL RESOURCES						
							Walford Creek, QLD		Mt	% Cu	Cu (kt)	ppm Co	Co (kt)
							Copper Lode Resource		23.5	1.10%	257.5	1,426	33.5
							Measured		6.2	1.15%	71.3	1,500	9.3
							Indicated		11.3	1.00%	113.0	1,400	15.8
							Inferred		6.0	1.22%	73.2	1,400	8.4
							Cobalt Peripheral Resource						
							Total resource		17.5	0.26%	45.3	934	16.3
							Measured		5.9	0.24%	14.2	1,000	5.9
							Indicated		10.9	0.27%	29.4	900	9.8
							Inferred		0.7	0.25%	1.8	900	0.6
							PROJECT ASSUMPTIONS - Vardy Zone evaluation						
							Year ending June 30		FY18	FY19	FY20	FY21	FY22
							Currency	US\$/A\$	0.78	0.72	0.67	0.68	0.71
							Copper price	US\$/lb	\$3.06	\$2.83	\$2.63	\$2.99	\$3.21
							Cobalt	US\$/t	\$73,057	\$47,634	\$40,000	\$45,000	\$55,000
							Zinc	US\$/t	\$1.44	\$1.22	\$1.02	\$0.94	\$0.98
							CAPEX - development	A\$m	-	-	-	(65)	(258)
							CAPEX - sustaining	A\$m	-	-	-	(3)	(3)
							Ore milled	Mt	-	-	-	-	2.10
							Head grade	% Cu	-	-	-	-	0.45%
								ppm Co	-	-	-	-	853
							Production	t Cu	-	-	-	-	9,044
								t Co	-	-	-	-	1,292
							AISC	A\$/lb Cu	-	-	-	-	(\$0.24)
							VALUATION						
							Ordinary shares (m)						677.6
							Options in the money (m)						-
							Assumed equity raise (m)						70.2
							Diluted m						747.7
							SOTP						\$m \$/sh
							Walford Ck (unrisked NPV10)						527 0.78
							Walford Ck (risk discount 40%, NPV10)						316 0.47
							Other exploration						150 0.22
							Corporate overheads						(14) (0.02)
							Net cash (debt)						(13) (0.02)
							Total (undiluted)						439 0.65
							Cash from options						- -
							Assumed equity raise						6 0.01
							Total (fully diluted)						445 0.60
							MAJOR SHAREHOLDERS						
													% m
							OCP Holdings						44.7% 302.6
							Phillip Averill						5.2% 35.1
							Top 2						49.8% 337.7

SOURCE: BELL POTTER SECURITIES ESTIMATES

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.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research/Banks	612 8224 2810	tslim
Analysts			
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	lsotiriou
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Elyse Shapiro	Healthcare	613 9235 1877	eshapiro
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Damien Williamson	Industrials	613 9235 1958	dwilliamson
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Associate			
Joseph House	Associate Analyst	+61 3 9235 1624	jhouse

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Prosperity Tower, 39 Queens Road
Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street
London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929

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