

Alpha HPA Ltd (A4N)

DFS confirms a high margin business

The DFS released by Alpha HPA Ltd (A4N) demonstrates the company is on track to take advantage of the forecasted growth in HPA demand. The announcement of Orica Ltd (ORI.ASX) as the selected reagent supplier allowed Alpha HPA to select the 10Ha site in Gladstone State Development Area. This has eliminated much of the uncertainty on the robustness of the chemical process. Despite increases in initial CapEx (US\$149M to US\$210M), reductions in reagent pricing have decreased annual operating costs by A\$15.1M to A\$127.5Mpa.

HPA supply deficits expected commencing CY2020

A4N's LT HPA price of US\$25,000/t has been derived from industry research conducted by CRU. CAGR for HPA within the lithium ion battery and LED markets is expected to be 25.4% and 20.4% respectively out to 2028. Deficits in HPA supply are expected as early as this calendar year (CY2020). We believe the strong emphasis on reducing fossil fuel investment and the shift towards greener technologies adds weight to the LT growth in HPA demand.

Sales margins remain outstanding

We expect first production to commence in Q1FY23 and have adopted Alpha's expected production ramp up over the first two years. At full capacity, the company will produce 10,000tpa of 4N HPA. We have used a long-term price of US\$20,000 and AISC of US\$6,500/t, thereby giving an AISC margin of US\$13,500/t. The initial capex is expected to be funded through 70:30 debt and equity, with gearing to commence within FY21. We anticipate positive EBITDA to be achieved from FY23, with LT forecasts of A\$196M per annum. Variations in HPA pricing and A\$/US\$ exchange rate have the biggest influence on our valuation and earnings.

Highly compelling financials

The joint collaboration with Orica provides significant confidence on Alpha's chemical process. The company will now continue discussions with offtake parties, progress through the permitting steps and finalising financing. Through technical innovation and highly experienced management, Alpha presents as significant growth opportunity. We maintain a BUY recommendation with a target price of A\$0.74ps.

if you would like to discuss our full research report further please contact us on the details below.

Mining	
12-month rating	BUY
Target Price (A\$ps)	0.74
Share Price (A\$ps)	0.13
Upside	496%
BBG: A4N AU	
Trading data & key metrics	
52-week range	0.1 - 0.275
Market Cap:	79
Shares on issue (m):	632
Avg daily volume (k):	1,114
Avg. daily volume -\$m	0.16
Directors:	
Norman Seckold	CHAIR
Rimas Kairaitis	MD
Peter Nightingale	Director & CFO
Tony Sgro	NED
Justin Werner	NED
Substantials:	
Regal Funds Management	13.89%
Norman Sekold	10.65%
Budworth Capital Pty Ltd	6.63%
Westpac Asset Management Arm	5.74%
A\$ps	millions
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