

Speculative

See key risks on page 6, and early stage company risk warning on page 9. Speculative securities may not be suitable for Retail clients.

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Alpha HPA (A4N)

\$400m NAIF & EFA debt package

Recommendation
Buy (unchanged)
Price
\$1.09
Valuation
\$1.75 (previously \$1.60)
Risk
Speculative

GICS Sector
Materials

Expected Return

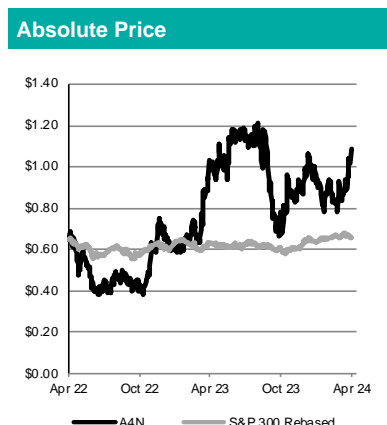
Capital growth	61%
Dividend yield	0%
Total expected return	61%

Company Data & Ratios

Enterprise value	\$985m
Market cap	\$1,018m
Issued capital	934m
Free float	~87%
Avg. daily val. (52wk)	\$2.3m
12 month price range	\$0.645-\$1.25

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.87	1.00	0.94
Absolute (%)	26.0	9.5	16.6
Rel market (%)	27.5	8.1	12.8



SOURCE: IRESS

Credit approved \$400m NAIF & EFA debt announced

A4N has announced that its HPA First Project Stage 2 has received credit approval for \$320m in debt (11-year tenor) and \$80m in cost overrun facilities, jointly funded by the Northern Australia Infrastructure Facility (NAIF) and Export Finance Australia (EFA). Credit approval follows the lenders' extensive technical and market due diligence. EFA's funding has been provided through the Australian Government's \$4b Critical Minerals Facility. The debt facilities are subject to final documentation, customary conditions and offtake Letters of Intent (LOI) for 10ktpa production.

Key de-risking catalyst in the lead-up to project FID

The \$320-400m in Government-backed concessional debt facilities are a major de-risking catalyst (we had assumed \$300m) with extended tenor and what we expect to be a highly competitive cost of funds. NAIF's involvement and extensive project due diligence dates back to 2021; EFA's Letter of Support since Q3 2023. The debt will sit alongside committed government grants of around \$67m and is a key funding component of what we estimate will be a circa \$500m development. Importantly, the de-risking enables potential customers to enter offtake LOIs in preparation for A4N's final HPA First Project Definitive Feasibility Study and ultimately the company taking a Final Investment Decision, which we expect during the current quarter.

Investment view – Speculative Buy, Valuation \$1.75/sh

Our A4N valuation is now \$1.75/sh (previously \$1.60/sh); the upgrade reflecting a larger than expected debt package and the de-risking it provides.

A4N's high purity aluminium products have value adding applications across lithium ion battery, micro-LED and semiconductor manufacturing, technologies at the forefront of the global decarbonising and reshoring themes. We assume the HPA First Project Stage 2 is developed over 2024-25 for first production in 2026 and estimate EBITDA of over \$250m at steady state at a HP Ae price of US\$25/kg. We also include a risked valuation for A4N's Alpha Sapphire subsidiary.

Earnings Forecast

Year ending 30 June	2024e	2025e	2026e	2027e
Sales (A\$m)	8	16	149	373
EBITDA (A\$m)	(8)	2	87	262
NPAT (reported) (A\$m)	(10)	(9)	58	164
NPAT (adjusted) (A\$m)	(10)	(9)	58	164
EPS (adjusted) (eps)	(1.1)	(0.9)	5.9	16.7
EPS growth (%)	na	na	na	182%
PER (x)	-99.0x	-114.9x	18.4x	6.5x
FCF Yield (%)	-11%	-25%	-3%	12%
EV/EBITDA (x)	-118.7x	449.3x	11.3x	3.8x
Dividend (eps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-9%	-5%	22%	44%

SOURCE: BELL POTTER SECURITIES ESTIMATES

\$400m NAIF & EFA debt package

Credit approved \$400m NAIF & EFA debt announced

A4N has announced that its HPA First Project Stage 2 has received credit approval for up to \$400m in debt facilities, jointly funded by the Northern Australia Infrastructure Facility (NAIF) and Export Finance Australia (EFA). The facilities include:

- Construction Facility of \$320m with a tenor of 11 years; and
- Cost Overrun Facility of \$80m with a tenor of 5 years.

Credit approval follows the lenders' extensive technical and market due diligence. EFA's funding has been provided through the Australian Government's \$4b Critical Minerals Facility. It compares with our previous assumption of \$300m in debt funding.

The debt facilities are subject to final documentation and customary conditions precedent. The NAIF loan is provided through the State of Queensland and is subject to Queensland Government approvals. Drawdown of funds is subject to the A4N securing Letters of Intent (LOIs) and product qualification for an aggregate 10ktpa HP Ae production.

Key de-risking catalyst across funding, technology & markets

The Government-backed concessional debt facilities are a major de-risking catalyst in terms of project financing, the project's technology and the markets A4N will target.

- The extended tenor and what we expect to be a highly competitive cost of funds substantially de-risks the project's financing alongside committed government grants totalling around \$67m;
- In de-risking financing, potential HPA First Project customers will now have more comfort in entering long term product offtake agreements; and
- NAIF and EFA have conducted extensive due diligence to understand and validate the HPA First Project technology and its end-product markets across the lithium-ion battery, led lighting/display and semiconductor sectors. NAIF's involvement and project due diligence dates back at least to 2021; EFA's Letter of Support was announced in October 2023 and presumably followed an extensive period of project assessment.

Next steps: Offtake LOIs & final DFS in lead-up to FID

In relation to the HPA First Project, over the remainder of the current quarter we expect:

- **Offtake LOIs:** A4N to secure offtake agreements in support of the NAIF/EFA funding across its target markets including pull-through from its Alpha Sapphire subsidiary;
- **Final DFS:** A comprehensive, bankable update on project economics including guidance on product mix (across HPA, aluminium nitrate, aluminium sulphate), pricing expectations, target market split, operating costs and capital expenditure requirements;
- **FID:** Securing all required HPA First Project funding and Board approvals.

We estimate a capital cost for the HPA First Project of around \$500m, to be covered by:

- **NAIF & EFA funding of \$320-400m (previous estimate \$300m):** As announced.
- **Commonwealth and Queensland State government grants of at least \$67m:** See Table 3 in this report.
- **Strategic investments/equity/other of \$100-150m:** We expect that strategic investors and equity markets (ORI is a 5% A4N shareholder) will be supportive of the remaining capital requirement.

Valuation summary

Our base case A4N valuation of \$1.75/sh (previously \$1.60/sh) is based on:

- **Timing:** HPA First Project FID by mid-2024 for development over 2024-25 and first production from 2026.
- **Pricing:** HPAe basket price of US\$25/kg (US\$25,000/t) compared with recent independent market studies suggesting long term prices greater than US\$30/kg and recent sales at US\$75/kg.
- **Throughput:** HPA First Project Stage 2 producing 10,000tpa HPAe compared with possible rates of 12,000tpa given revised project scope and additional product lines.
- **Opex:** US\$7/kg compared with the DFS estimate of ~US\$5.9/kg.
- **Capex & capital requirements:** Capital cost of \$500m compared with the DFS estimate of \$308m. We have assumed around \$320m will be funded by debt, \$67m from already announced government grants and around \$125m by equity, potentially from strategic investors.

Steady state HPA First Project EBITDA under these assumptions is ~\$250m.

- **Alpha Sapphire:** Stand-alone project consisting of 100 sapphire growth units generating US\$52-69m (\$81-109m) EBITDA on a conservative EBITDA multiple of 5x, less capex and with a 50% risk discount applied.

Table 1 - Risked & diluted valuation summary

Product price scenario	1	2	3
		Base case	
Price - 4N HPAe basket US\$/t	US\$20,000/t	US\$25,000/t	US\$30,000/t
HPA First Project			
Unrisked NPV (10% discount rate) \$m	869	1,431	1,994
Risk discount %	15%		
Risked NPV (10% discount rate) \$m	738	1,217	1,695
Other (Canada potential, 80% risked) \$m	87	143	199
Alpha Sapphire (100 growth units, 50% risked)	176	176	176
Other (downstream & other) \$m	52	85	119
Corporate costs \$m	-50		
Enterprise value \$m	1,003	1,571	2,139
Net debt / (cash) \$m	-33		
Equity valuation (risked, undiluted) \$m	1,036	1,604	2,172
Assumed capital raise \$m	125		
Assumed raise price \$/sh	1.04		
Government grants \$m	97		
Current shares on issue m	934		
In the money options m	12		
Assumed capital raising dilution m	120		
Diluted shares on issue m	1,066		
Net debt / (cash) (including options, assumed raising & grants) \$m	-266		
Equity valuation (risked, diluted) \$m	1,268	1,836	2,404
Equity valuation (risked, diluted) \$/sh	1.20	1.75	2.30

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

HPA First Project product suite

Table 2 - A4N's product suite & applications

KEY APPLICATION	Lithium ion batteries			LEDs		Semi-conductors	Other
	Cathode	Separator	Anode	LED lights	Micro-LEDs (displays)		
A4N PRODUCT							
Aluminium Precursors							
Aluminium nitrate	HPA particle coating		HPA particle coating (anode active materials)	Phosphors for white LEDs	Nano-size phosphors		Catalysts & YAG laser crystals
Aluminium sulphate	Sulphate blending (NCA & NCMA)						
High Purity Alumina							
HPA powder (gamma phase)	High nickel cathode coating			Phosphors for white LEDs			Specialty catalysts
HPA tablets (alpha phase)				Sapphire glass wafers (substrate)	Sapphire glass wafers (substrate)		Specialty ceramics
HPA powder (nano-alumina)	High nickel cathode coating	HPA layer coating			Nano-size phosphors	Chemical-Mechanical Polishing	
5N ultra high purity alumina tri-hydrate	High nickel cathode doping						HPA precursor, direct lithium extraction, aluminate glass
HPA Powder (alpha phase)		Boehmite layer coating		LED phosphors		Thermal interface material	Specialty ceramics

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Committed government grants

Table 3 - A4N government grants

Source	Program	Purpose	Announced	\$m
Commonwealth Government	Modern Manufacturing Initiative	HPA First Project	16/03/2022	45
Commonwealth Government	Critical Minerals Accelerator Initiative	Stage 1 - PPF	28/04/2022	16
Queensland Government	Industry Partnership Program	HPA First Project	5/04/2023	22
Total grants				82
Stage 1 grants				16
Stage 2 grants				67
Alpha Sapphire	QCMETF	Alpha Sapphire Phase A&B	28/09/2023	30

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Alpha HPA Ltd summary

Company description

A4N's HPA First Project is aiming to supply high-purity aluminium-based products to the lithium ion battery, light emitting diode (LED) and semiconductor manufacturing sectors. The project's proprietary technology is expected to disrupt incumbent HPA production through significantly lower unit costs. Results of a March 2020 DFS outlined a 10,000tpa 4N HPA project with a capital cost of \$308m and pre-tax annual cash flow of \$133-280m at 4N HPA prices ranging US\$15,000-25,000/t.

In June 2021, a HPA First Project Stage 1 was estimated to have revenues of \$10-15m and generate free cash flow of \$1.5-5.0m from aluminium precursor production of 200tpa. This project was subsequently scaled up to produce +350ktpa aluminium nitrates and additional high purity alumina and high purity boehmite production. Production at Stage 1 commenced in late 2022.

The HPA First Project is a solvent extraction process using an aluminium chemical feedstock purchased on globally traded markets. Orica Ltd (ORI) and A4N have executed a definitive agreement for ORI's supply of process reagents and for by-product offtake. This agreement has required significant third party due diligence of the HPA First Project process. ORI is a 5% shareholder in A4N.

ALPHA SAPPHIRE: A4N'S DOWNSTREAM SUBSIDIARY

In March 2023, A4N announced it had entered a LOI with Austrian technology providers Ebner Industrieofenbau GmbH (Ebner) and Ebner subsidiary Fametec GmbH (Fametec) to establish sapphire glass manufacturing in Australia using A4N's HPA products and Ebner-Fametec's sapphire growth technology. In June 2023, the groups announced a potential expansion and the staged rollout to over 1,000 units. This business is housed under A4N's wholly owned subsidiary Alpha Sapphire.

In September 2023, Alpha Sapphire was awarded up to \$30m in project funding to accelerate the rollout of an initial 50 sapphire growth units under the LOI with Ebner Fametec.

Investment view – Speculative Buy, Valuation \$1.75/sh

Our A4N valuation is now \$1.75/sh (previously \$1.60/sh); the upgrade reflecting a larger than expected debt package and the de-risking it provides.

A4N's high purity aluminium products have value adding applications across lithium ion battery, micro-LED and semiconductor manufacturing, technologies at the forefront of the global decarbonising and reshoring themes. We assume the HPA First Project Stage 2 is developed over 2024-25 for first production in 2026 and estimate EBITDA of over \$250m at steady state at a HP Ae price of US\$25/kg. We also include a risked valuation for A4N's Alpha Sapphire subsidiary.

Risks

Risk to an investment in A4N include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of development and operating assets and companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Technology:** Projects may be reliant on commercialisation of new production processes and methodologies which have yet been proven on a large scale. Technology may be replicated by competitors resulting in a loss of market share.
- **Infrastructure access.** Projects are reliant upon access to transport and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for raw material inputs and labour can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to commodity and labour markets. Companies are also exposed to costs associated with future land rehabilitation.
- **Sovereign risks.** Companies' assets are subject to the sovereign risk of the country of location and may also be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuations of companies.
- **Environmental risks.** Companies are exposed to risks associated with environmental degradation as a result of their production processes.
- **Operating and development risks.** Companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Companies are exposed to OH&S risks.
- **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.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19).** This may have an adverse impact on the macro economic factors, including the mobility of labour, which can impact asset valuations.

Table 4 - Financial summary

Date	17/04/24						Bell Potter Securities						
Price	AS/sh 1.090						Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)						
Valuation	AS/sh 1.75												
PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e	Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e
Revenue	\$m	2	8	16	149	373	VALUATION						
Expenses	\$m	(17)	(16)	(14)	(62)	(111)	EPS	Ac/sh	(2)	(1)	(1)	6	17
EBITDA	\$m	(15)	(8)	2	87	262	EPS growth (Acps)	%	na	na	na	na	182%
Depreciation & amortisation	\$m	(1)	(2)	(2)	(10)	(18)	PER	x	-58.3x	-99.0x	-114.9x	18.4x	6.5x
EBIT	\$m	(16)	(10)	0	77	244	DPS	Ac/sh	-	-	-	-	-
Net interest expense	\$m	0	-	(10)	(19)	(19)	Franking	%	0%	0%	0%	0%	0%
Profit before tax	\$m	(16)	(10)	(9)	58	225	Yield	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	(61)	FCF/share	Ac/sh	(2.3)	(12.0)	(27.2)	(3.7)	12.9
NPAT (reported)	\$m	(16)	(10)	(9)	58	164	FCF yield	%	-2%	-11%	-25%	-3%	12%
NPAT (adjusted)	\$m	(16)	(10)	(9)	58	164	EV/EBITDA	x	-65.1x	-118.7x	449.3x	11.3x	3.8x
CASH FLOW STATEMENT							LIQUIDITY & LEVERAGE						
Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e	Net debt / (cash)	\$m	(21)	(35)	231	268	141
OPERATING CASH FLOW							Net debt / Equity	%	-37%	-20%	101%	93%	31%
Receipts from customers	\$m	0	8	16	121	328	Net debt / Net debt + Equity	%	-58%	-25%	50%	48%	24%
Payments to suppliers and employees	\$m	(15)	(19)	(14)	(57)	(106)	Net debt / EBITDA	x	1.4x	4.2x	105.6x	3.1x	0.5x
Tax paid	\$m	-	-	-	-	(61)	EBITDA / net int expense	x	35.4x	0.0x	0.2x	4.5x	13.6x
Net interest	\$m	0	-	(10)	(19)	(19)	PROFITABILITY RATIOS						
Other	\$m	4	-	-	-	-	EBITDA margin	%	-932%	-104%	14%	58%	70%
Operating cash flow	\$m	(11)	(11)	(8)	44	142	EBIT margin	%	-993%	-127%	2%	52%	65%
INVESTING CASH FLOW							Return on assets	%	-26%	-8%	-3%	10%	23%
Capex	\$m	(24)	(100)	(325)	(81)	(15)	Return on equity	%	-30%	-9%	-5%	22%	44%
Acquisitions	\$m	-	-	-	-	-	ASSUMPTIONS - Prices (nominal)						
Other	\$m	16	0	67	-	-	Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e
Investing cash flow	\$m	(8)	(100)	(258)	(81)	(15)	4N HPA price	US\$/t	25,000	25,000	25,000	25,000	25,000
FINANCING CASH FLOW							4N HPA price	A\$/t	37,144	36,702	35,714	35,714	35,714
Debt proceeds/(repayments)	\$m	(0)	-	320	-	-	FX	US\$/A\$	0.67	0.68	0.70	0.70	0.70
Dividends paid	\$m	-	-	-	-	-	ASSUMPTIONS - Sales (equity)						
Proceeds from share issues (net)	\$m	23	125	-	-	-	Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e
Other	\$m	-	-	-	-	-	4N HPAe sales	t	-	-	-	3,726	10,000
Financing cash flow	\$m	23	125	320	-	-	5N Al-Precursor #1 - Al-Nitrate	t	98	175	175	175	175
Change in cash	\$m	4	14	54	(36)	127	5N Al-Precursor #2 - Al-Sulfate	t	98	175	175	175	175
Free cash flow	\$m	(19)	(111)	(266)	(36)	127	VALUATION						
BALANCE SHEET							VALUATION						
Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e	Product price scenario		1	2	3		
ASSETS									Base case				
Cash	\$m	21	35	89	52	179	4N HPAe price US\$/t		20,000	25,000	30,000		
Receivables	\$m	2	2	2	30	75	HPA First project \$m						
Inventories	\$m	1	2	1	6	11	Unrisked NPV (8% discount rate)		869	1,431	1,994		
Capital assets	\$m	38	136	459	530	527	Risk discount	15%					
Other assets	\$m	6	6	6	6	6	Risked NPV		738	1,217	1,695		
Total assets	\$m	67	180	557	625	798	Other (Canada potential, 90% risked)		87	143	199		
LIABILITIES							Alpha Sapphire (100 growth units, 50% risked)		176	176	176		
Creditors	\$m	5	3	3	12	22	Other (downstream & other)		52	85	119		
Borrowings	\$m	-	-	320	320	320	Corporate costs \$m	(50)					
Provisions	\$m	-	-	-	-	-	Enterprise value \$m	1,003	1,571	2,139			
Other liabilities	\$m	6	6	6	6	6	Net debt / (cash) \$m	(33)					
Total liabilities	\$m	11	9	328	338	348	Equity valuation (risked, undiluted) \$m	1,036	1,604	2,172			
NET ASSETS							Assumed capital raise \$m	125					
Share capital	\$m	128	253	320	320	320	Assumed raise price \$/sh	1.04					
Reserves	\$m	8	8	8	8	8	Current shares on issue m	934					
Accumulated losses	\$m	(80)	(90)	(100)	(42)	122	In the money options m	12					
Non-controlling interest	\$m	-	-	-	-	-	Assumed capital raising dilution m	120					
SHAREHOLDER EQUITY	\$m	56	171	229	287	450	Diluted shares on issue m	1,066					
Weighted average shares	m	839	923	978	978	978	Net debt / (cash) (including options & assumed raising) \$m	(266)					
							Equity valuation (risked, diluted) \$m	1,268	1,836	2,404			
							Equity valuation (risked, diluted) \$/sh	1.20	1.75	2.30			

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.

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Disclosure: Bell Potter Securities acted as Joint Lead Manager to A4N's equity placement in November 2023 and received fees for that service.

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