

See key risks on page 7, and early stage company risk warning on page 10. Speculative securities may not be suitable for Retail clients.

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Alpha HPA Ltd (A4N)

HPA First Project DFS & FID

Recommendation
Buy (unchanged)
Price
\$0.895
Valuation
\$2.00 (previously \$1.95)
Risk
Speculative

Sector
Materials

Expected Return

Capital growth	123%
Dividend yield	0%
Total expected return	123%

Company Data & Ratios

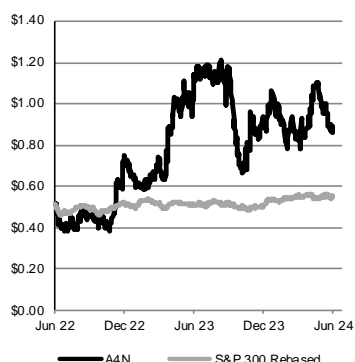
Enterprise value*	\$817m
Market cap*	\$1,010m
Issued capital*	1,128m
Free float	~80%
Avg. daily val. (52wk)	\$2.3m
12 month price range	\$0.65-\$1.25

*Includes 123m Tranche 2 Placement Shares to be issued following EGM scheduled for 24 June 2024.

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.04	0.87	0.94
Absolute (%)	-13.9	2.9	-4.3
Rel market (%)	-16.2	2.1	-13.4

Absolute Price



SOURCE: IRESS

HPA First Project DFS & \$175m placement support FID

A4N has released the HPA First Project Stage 2 final Definitive Feasibility Study, announced the Board's positive Final Investment Decision and completed a \$175m equity placement. The placement, alongside previously announced debt finance of \$400m and government grants of \$67m provides circa \$640m in liquidity to fund the Stage 2 project (DFS capex \$553m). Existing cash and an additional previously announced \$30m project financing from the QIC Critical Minerals and Battery Technology Fund (QCBTF) supports Phases A and B of A4N's Alpha Sapphire Project. A4N is now fully funded for its key near-term development projects.

Strong DFS economics; Alpha Sapphire the next catalyst

DFS highlights include volumes of 10,430tpa, unit costs of US\$6.70/kg and an estimated price range of US\$24-34/kg to generate annual steady-state EBITDA of A\$255-403m. DFS capex of \$553m conservatively includes \$79m in contingencies. The project is now in development for commissioning in mid-2026. The project economics we had assumed fit comfortably within the DFS ranges.

In parallel to the HPA First Project, A4N recently announced the successful growth of synthetic sapphire boules from its first two production units at the Alpha Sapphire project. Customer qualification is expected over the next few months before FID on the Phase B rollout (to 50 units). The Phase B project value-adds a proportion of A4N's high purity alumina production and has projected annual EBITDA of US\$26-35m.

Investment view – Speculative Buy \$2.00/sh

A4N's proprietary technologies produce ultra-high purity aluminium compounds with applications in high-technology growth sectors including the manufacturing of lithium-ion batteries, LED displays/lighting and semiconductors. The HPA First Project Stage 1 supported technical and commercial validation; Stage 2 is in development for ramp-up in 2026. A4N is also establishing a downstream synthetic sapphire glass subsidiary. Our valuation is now 2.00/sh (previously \$1.95/sh).

Earnings Forecast

Year ending 30 June	2024e	2025e	2026e	2027e
Sales (A\$m)	4	19	30	185
EBITDA (A\$m)	(14)	4	14	105
NPAT (reported) (A\$m)	(16)	(12)	(42)	23
NPAT (adjusted) (A\$m)	(16)	(12)	(42)	23
EPS (adjusted) (eps)	(1.7)	(1.1)	(4.0)	2.2
EPS growth (%)	na	na	na	na
PER (x)	-53.5x	-78.9x	-22.4x	40.7x
FCF Yield (%)	-2%	-19%	-34%	0%
EV/EBITDA (x)	-58.4x	182.6x	56.7x	7.8x
Dividend (eps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-12%	-5%	-17%	10%

SOURCE: BELL POTTER SECURITIES ESTIMATES

HPA First Project DFS & FID

HPA First Project DFS; Steady-state EBITDA \$255-403m

On 20 May 2024, A4N released the HPA First Project Stage 2 final Definitive Feasibility Study. The DFS outlines the project's final expected product suite and economics ahead of the commencement of development.

We view the DFS outcomes as highly attractive and consistent with our pre-DFS estimates:

- Production capacity of 10,430tpa (BP pre-DFS est. 10,000tpa);
- Pricing scenarios of US\$24-34/kg (BP pre-DFS previous est. US\$27.50/kg);
- Unit cash costs of US\$6.70/kg (BP pre-DFS est. US\$7/kg);
- Capital cost of \$553m (including contingency of \$79m) (BP pre-DFS est. \$530m);
- First production from late 2026 (BP pre-DFS est. early 2026);
- Annual steady-state revenue of \$359-509m (BP pre-DFS est. \$430m); and
- Annual steady-state EBITDA of \$255-403m (BP pre-DFS est. \$330m).

The production capacity and pricing metrics were based on tonnes of high purity aluminium products sold. On a "HPA equivalent" basis, production capacity is estimated at 6,850tpa and the assumed pricing scenarios range US\$52-74/kg.

Fully funded: FID supported by debt; grants & \$175m equity

Concurrently, A4N's Board approved a positive FID for the HPA First Stage 2 development. The final funding stack for the \$553m DFS capital expenditure estimate provides circa \$640m in liquidity and comprises:

- **NAIF & EFA funding of \$320-400m:** As announced on 17 April 2024. This funding includes a Construction Facility of \$320m with a tenor of 11 years; and Cost Overrun Facility of \$80m with a tenor of 5 years. It is jointly funded by the Northern Australia Infrastructure Facility (NAIF) and Export Finance Australia (EFA)
- **Commonwealth and Queensland State government grants of at least \$67m:** Previously announced grants; see Table 4 in this report.
- **Equity placement of \$175m:** Completed with FID. This placement was upsized from the initial \$120m announced placement on significant demand from existing and new institutional shareholders. The placement was conducted at \$0.90/sh.

ALPHA SAPPHIRE PHASES A & B ARE ALSO FULLY FUNDED

Existing cash and an additional previously announced \$30m project financing from the QIC Critical Minerals and Battery Technology Fund (QCMBTF) supports Phases A and B of A4N's Alpha Sapphire Project.

- **Phase A – 2 Units:** The initial installation of two Ebner-Fametec synthetic sapphire growth units at the HPA First Project in Gladstone to support product qualification.
- **Phase B – 50 Units:** The installation of 50 Ebner-Fametec synthetic sapphire growth units (i.e. an additional 48 units) at a new Queensland-based site. A4N has estimated that Phase B has the potential to generate EBITDA of US\$25.8-34.6m.

The broader agreement with Ebner-Fametec contemplates further roll-out phases including Phase C to a total of 100 growth units (A4N estimate EBITDA of US\$51.6-69.3m) and Nova Phase for up to an additional 1,000 growth units. A4N expect that Phase C could be funded from internal cash flows.

Forthcoming catalysts & news flow

HPA FIRST PROJECT

- **Ongoing:** Customer qualification, offtake LOIs and sales agreements.
- **Mid-2024:** Commence on-site development for the HPA First Project Stage 2.
- **Mid-2026:** HPA First Project Stage 2 commissioning.
- **Late-2026:** HPA First Project Stage 2 first production.

ALPHA SAPPHIRE

- **Mid-2024:** Customer qualification for synthetic sapphire produced using the Ebner-Fametec technology with A4N's HPA product at the Gladstone HPA First Project site.
- **Mid-2024:** Site selection for Phase B rollout of the Ebner-Fametec agreement to 50 synthetic sapphire growth units.
- **2H 2024:** Phase B FID and ordering of growth units.
- **Ongoing:** Customer qualification and sales

Share Purchase Plan

On 20 May 2024, A4N also announced a non-underwritten Share Purchase Plan. Eligible shareholders can apply for up to \$30,000 of new fully paid shares, priced at the lower of the Placement Price of \$0.90/sh and a 2% discount to the 5-day VWAP of A4N shares up to, and including, the closing date of the SPP, which is scheduled for 13 June 2024.

Changes to earnings estimates

We have updated our financial model for the HPA First Project Stage 2 DFS estimates, assuming midpoints of guided ranges for product pricing.

The downgrade to near-term earnings is a result of adopting the more conservative DFS ramp-up schedule. However, improved overall pricing has increased our valuation to \$2.00/sh.

Table 1 - Changes to earnings estimates

Year ending 30 June	2024e	2025e	2026e	2025e	2026e	2027e	2025e	2026e	2027e
Production tpa	350	4,076	10,350	350	350	3,332	0%	-91%	-68%
Revenue A\$m	19	179	448	19	30	185	-1%	-83%	-59%
EBITDA A\$m	5	117	336	4	14	105	-17%	-88%	-69%
NPAT A\$m	-6	84	210	-12	-42	23	96%	-150%	-89%
EPS Acps	-1	8	21	-1	-4	2	85%	-147%	-90%
DPS Acps	0	0	0	0	0	0	-	-	-
Valuation	1.95			2.00			3%		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation summary

Our base case A4N valuation of \$2.00/sh (previously \$1.95/sh) is based on:

- **Timing:** HPA First Project development over 2024-25 and first production from 2026.
- **Pricing:** Average pricing of US\$27.60/kg (US\$27,600/t) compared with A4N's market outreach seeing average prices of around US\$24/kg and an independent consultant assessments at US\$34/kg.
- **Throughput:** HPA First Project Stage 2 producing 10,430tpa of combined aluminium products.
- **Opex:** US\$7.55/kg compared with the DFS estimate of US\$6.70/kg.
- **Capex & capital requirements:** Capital cost of \$553m, in line with the DFS estimate.

Steady state HPA First Project annual EBITDA under these assumptions is ~\$300m.

- **Alpha Sapphire:** Stand-alone project consisting of 50 sapphire growth units generating around \$45m annual EBITDA. We have applied a 25% risk discount to this project.

Table 2 - Risked & diluted valuation summary

Product price scenario	1	2 Base case	3
Average basket price US\$/kg	24.1	27.6	31.1
HPA First Project			
Unrisked NPV (10% discount rate) \$m	1,344	1,711	2,078
Risk discount %	10%		
Risked NPV (10% discount rate) \$m	1,210	1,540	1,870
Other (Canada potential, 80% risked) \$m	269	342	416
Alpha Sapphire (50 growth units, 25% risked)	207	207	207
Other (downstream & other) \$m	61	77	94
Corporate costs \$m	-50		
Enterprise value \$m	1,697	2,117	2,537
Net debt / (cash) \$m	-193		
Equity valuation (risked, undiluted) \$m	1,890	2,310	2,730
Diluted shares on issue m	1,133		
Equity valuation (risked, diluted) \$/sh	1.60	2.00	2.40

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

HPA First Project product suite

Table 4 - A4N's product suite & applications

KEY APPLICATION A4N PRODUCT	Lithium ion batteries			LEDs		Semi-conductors	Other
	Cathode	Separator	Anode	LED lights	Micro-LEDs (displays)		
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

Alpha HPA Ltd summary

Company description

A4N's HPA First Project in Gladstone Queensland 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 delivering ultra-high purity products with significantly lower unit costs.

In May 2024, A4N took FID and announced a Final Definitive Feasibility Study for the HPA First Project Stage 2. The study outlined aluminium product output of 10,430tpa with a project capital cost of \$553m generating steady-state EBITDA of \$255-403m at product prices ranging US\$24-34/kg.

The Stage 2 project was preceded by a smaller commercial-scale Stage 1 facility at the Gladstone site. This facility was commissioned in 2022 and has provided valuable process and product validation to potential offtake customers and funding participants.

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.

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. The initial two sapphire growth units were commissioned in May 2024.

Investment view – Speculative Buy, Valuation \$2.00/sh

A4N's proprietary technologies produce ultra-high purity aluminium compounds with applications in high-technology growth sectors including the manufacturing of lithium-ion batteries, LED displays/lighting and semiconductors. The HPA First Project Stage 1 supported technical and commercial validation; Stage 2 is in development for ramp-up in 2026. A4N is also establishing a downstream synthetic sapphire glass 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 5 - Financial summary

Date	AS/sh	5/06/24					Bell Potter Securities							
Price	AS/sh	0.895					Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)							
Valuation	AS/sh	2.00												
PROFIT AND LOSS														
Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e	Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e	
Revenue	\$m	2	4	19	30	185	VALUATION							
Expenses	\$m	(17)	(18)	(15)	(16)	(80)	EPS	Ac/sh	(2)	(2)	(1)	(4)	2	
EBITDA	\$m	(15)	(14)	4	14	105	EPS growth (Acps)	%	na	na	na	na	na	
Depreciation & amortisation	\$m	(1)	(2)	(10)	(40)	(61)	PER	x	-47.9x	-53.5x	-78.9x	-22.4x	40.7x	
EBIT	\$m	(16)	(16)	(6)	(25)	44	DPS	Ac/sh	-	-	-	-	-	
Net interest expense	\$m	0	-	(6)	(17)	(21)	Franking	%	0%	0%	0%	0%	0%	
Profit before tax	\$m	(16)	(16)	(12)	(42)	23	Yield	%	0%	0%	0%	0%	0%	
Tax expense	\$m	-	-	-	-	-	FCF/share	Ac/sh	(2.3)	(1.7)	(16.8)	(30.6)	(0.0)	
NPAT (reported)	\$m	(16)	(16)	(12)	(42)	23	FCF yield	%	-3%	-2%	-19%	-34%	0%	
NPAT (adjusted)	\$m	(16)	(16)	(12)	(42)	23	EV/EBITDA	x	-54.0x	-58.4x	182.6x	56.7x	7.8x	
CASH FLOW STATEMENT														
Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e	LIQUIDITY & LEVERAGE							
OPERATING CASH FLOW							Net debt / (cash)	\$m	(21)	(180)	(3)	319	319	
Receipts from customers	\$m	0	5	18	26	154	Net debt / Equity	%	-37%	-84%	-1%	140%	127%	
Payments to suppliers and employees	\$m	(15)	(21)	(15)	(16)	(73)	Net debt / Net debt + Equity	%	-58%	-510%	-1%	58%	56%	
Tax paid	\$m	-	-	-	-	-	Net debt / EBITDA	x	1.4x	12.9x	-0.7x	22.1x	3.0x	
Net interest	\$m	0	-	(6)	(17)	(21)	EBITDA / net int expense	x	35.4x	0.0x	0.7x	0.9x	5.0x	
Other	\$m	4	-	-	-	-	PROFITABILITY RATIOS							
Operating cash flow	\$m	(11)	(16)	(3)	(6)	60	EBITDA margin	%	-932%	-337%	24%	47%	57%	
INVESTING CASH FLOW							EBIT margin	%	-993%	-382%	-31%	-84%	24%	
Capex	\$m	(24)	(0)	(241)	(316)	(60)	Return on assets	%	-26%	-11%	-3%	-8%	4%	
Acquisitions	\$m	-	-	-	-	-	Return on equity	%	-30%	-12%	-5%	-17%	10%	
Other	\$m	16	0	67	-	-	ASSUMPTIONS - HPA FIRST PROJECT							
Investing cash flow	\$m	(8)	0	(174)	(316)	(60)	Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e	
FINANCING CASH FLOW							Stage 1							
Debt proceeds/(repayments)	\$m	(0)	-	200	150	-	Production	t	196	351	350	350	350	
Dividends paid	\$m	-	-	-	-	-	Stage 2							
Proceeds from share issues (net)	\$m	23	175	-	-	-	Production	t	-	-	-	-	2,982	
Other	\$m	-	-	-	-	-	Average price received	US\$/kg	-	-	-	-	27.7	
Financing cash flow	\$m	23	175	200	150	-	Average price received	A\$/kg	-	-	-	-	39.6	
Change in cash	\$m	4	159	23	(172)	(0)	HPA First Production - Total	t	196	351	350	350	3,332	
Free cash flow	\$m	(19)	(16)	(177)	(322)	(0)	VALUATION							
BALANCE SHEET														
Year ending 30 June	Unit	2023a	2024e	2025e	2026e	2027e	Product price scenario							
ASSETS									1	2	3	Base case		
Cash	\$m	21	180	203	31	31	4N HPAe price US\$/kg		24	28	31			
Receivables	\$m	2	1	2	6	37	HPA First project \$m							
Inventories	\$m	1	2	1	2	8	Unrisked NPV (8% discount rate)			1,344	1,711	2,078		
Capital assets	\$m	38	36	266	542	541	Risk discount		10%					
Other assets	\$m	6	6	6	6	6	Risked NPV			1,210	1,540	1,870		
Total assets	\$m	67	224	479	587	623	Other (Canada potential, 80% risked)			269	342	416		
LIABILITIES							Alpha Sapphire (50 growth units, 25% risked)			207	207	207		
Creditors	\$m	5	4	3	3	16	Other (downstream & other)			61	77	94		
Borrowings	\$m	-	-	200	350	350	Corporate costs \$m		(50)					
Provisions	\$m	-	-	-	-	-	Enterprise value \$m			1,697	2,117	2,537		
Other liabilities	\$m	6	6	6	6	6	Net debt / (cash) \$m		(193)					
Total liabilities	\$m	11	9	209	359	372	Equity valuation (risked, diluted) \$m		1,890	2,310	2,730			
NET ASSETS							Diluted shares on issue m		1,133	-	-	-		
Share capital	\$m	128	303	370	370	370	Equity valuation (risked, diluted) \$/sh		1.60	2.00	2.40			
Reserves	\$m	8	8	8	8	8								
Accumulated losses	\$m	(80)	(96)	(108)	(150)	(127)								
Non-controlling interest	\$m	-	-	-	-	-								
SHAREHOLDER EQUITY	\$m	56	215	270	228	251								
Weighted average shares	m	839	948	1,052	1,052	1,052								

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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