

Flashnote

27 November 2024



Alpha HPA

AGM presentation and update

What's new

- **Stage 2 construction proceeding** with site clearance complete and earthworks advancing as per photos included in AGM preso. **Stage 1 in production** with HPA production rate of >1,200kg/week and restart of nitrate circuits to support full stage 1 capacity.
- Letter of Intent (LOI) coverage of 23% slightly higher vs at DFS (22%); Alpha notes **additional 5 LOI's issued to customers in 'draft'** form. LOI confirmation from customers to result in coverage increasing further.
- Alpha has received **170 test orders since FID** taken in May-24 and serviced 19 sales orders over same period. Sales orders for >1,310kg at an average price of US\$33/kg (so represents revenue of ~\$43k). Price of \$33/kg fairly in line with pricing deck in DFS.
- Alpha Sapphire phase B expansion (addtl 48 growth units) under review; capex est complete and company focussed on optimising opex.

Why it matters

- Alpha continues to progress the development of stage 2 with construction proceeding apace. As a reminder, DFS guided to **plant handover and production ramp-up from 4Q CY26**; civil works and building activities scheduled for 3Q CY24-1Q CY25 so current activities within this window.
- We previously wrote that additional LOIs were a key catalyst; AGM update suggests progress on this front with additional 5 LOIs in draft form. We think that opportunities in the semiconductor and battery anode coating product (ultra-high pure Al-nitrate) are the most promising end markets to have been progressed.
- **Awaiting decision on Alpha Sapphire phase B roll-out:** Alpha notes capex estimates have been completed and opex is under review. The company previously announced that it had made maiden sales of synthetic sapphire boules into the optics market (specifically for use in high-end watch faces). Sapphire roll-out slower than initially envisaged due to headwinds in micro-LED market development with Apple discontinuing the project to include micro-LED on the Apple Watch.
- Notwithstanding micro-LED headwinds, Alpha's cost-advantaged synthetic sapphire production process for 8-inch wafers lends it a competitive advantage, as existing market moves towards larger wafer sizes (economies of scale). Sapphire substrate is also becoming preferred for use in power semiconductors, providing another potential growth avenue.

What now

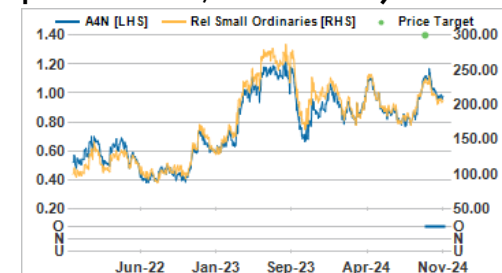
- **Outperform.** Alpha offers strong growth prospects due to HPA's material benefits, use cases in rapidly scaling markets and Alpha's cost advantage. We expect re-rating as Stage 2 construction milestones are reached and on further HPA market development as LOI coverage increases towards 100% of nameplate capacity. [Risks](#).

Chemicals
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A4N AU	Outperform
Price (at 26 Nov 2024)	AUD0.97
12-month target	AUD1.40
12-month TSR (%)	44.3
Market Cap (Local) (m)	1,101
Market Cap (USD) (m)	716
30-day avg turnover (AUD) (m)	2.9

Investment Fundamentals

Year end 30 Jun	2024A	2025E	2026E	2027E
Revenue (m)	6.3	2.8	14.6	122.2
EBITDA (m)	(24.4)	(9.9)	(2.5)	40.2
EBIT (m)	(26.3)	(12.5)	(11.8)	8.8
Reported profit (m)	(24.9)	(10.3)	(10.1)	(4.6)
Adjusted profit (m)	(24.9)	(10.3)	(10.1)	(4.6)
EPS adj (€)	(2.5)	(0.9)	(0.9)	(0.4)
EPS adj growth (%)	NM	64.4	2.2	56.1
PER adj (x)	NM	NM	NM	NM
Total DPS (€)	0.0	0.0	0.0	0.0
Total div yield (%)	0.0	0.0	0.0	0.0
Franking (%)	NM	NM	NM	NM
ROA (%)	(8.4)	(3.4)	(2.0)	1.1
ROE (%)	(10.1)	(4.2)	(3.6)	(1.4)

A4N AU rel Small Ordinaries
performance, & rec history

Source: FactSet, Macquarie Research, Nov 2024 (all figures in AUD unless noted, TP in AUD)

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Recommendation definitions	Volatility index definition	Financial definitions
<p>Macquarie – Asia and USA Outperform – expected return >10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – Australia/New Zealand Outperform – expected return >10% Neutral – expected return from 0% to 10% Underperform – expected return <0%</p> <p>During periods of share price volatility, recommendations and target prices may occasionally and temporarily be inconsistent with the above definitions.</p> <p>Recommendations – 12 months 12-month target – Expected share price in 12 months Valuation – The company's estimated fair value share price based on the disclosed valuation methodology Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high – highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 25–40% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to select stocks in Asia/Australia/NZ</p> <p>Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions for quarter ending 30 Sept 2024

	AU/NZ	Asia	USA	
Outperform	62.37%	64.19%	71.74%	(for global coverage by Macquarie, 2.06% of stocks followed are investment banking clients)
Neutral	32.06%	24.40%	25.00%	(for global coverage by Macquarie, 1.67% of stocks followed are investment banking clients)
Underperform	5.57%	11.41%	3.26%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

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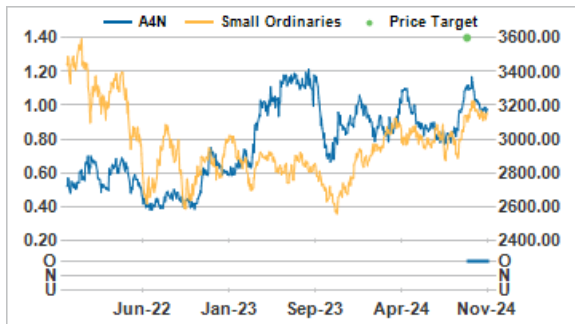
Company Name	Disclosure
Alpha HPA (A4N AU) Outperform 12-month target: AUD1.40 - Average DCF/SoP Valuation: AUD 1.48 - DCF (WACC 9.7%) Price: AUD0.97	Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of Alpha HPA Ltd. Macquarie Group is a substantial securities holder of Alpha HPA Ltd A Macquarie analyst(s) involved with the preparation of this research has, in the past 12 months, visited material operations of Alpha HPA Ltd. In connection with such a visit, the company may have furnished local transportation and/or accommodation, which requires authorisation in adherence with Macquarie policy requirements. Macquarie managed or co-managed a public offering of securities of Alpha HPA Ltd in the past 12 months, for which it received compensation.

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Recommendation history

Company name	Date	Recommendation	Target price
Alpha HPA (A4N AU)	3-Oct-2024	Outperform	AUD 1.40



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